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Finland Fmk7.00	Luxembourg .. LFr48	Taiwan ...... NT$85
France FFr6.50	Malaysia Rlm4.25	Thailand Bht50
Germany DM2.20	Mexico Pes300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong... HK$12	Netherlands.. Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr8.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Washington: Where the Fed chairman can't win, Page 14

World News | Business Summary

Last ditch talks open on EC farm spending

Critical talks to resolve the European Community's chronic budget crisis, and put strict limits on farm spending, reopen in Brussels, offering the last chance of reaching agreement in time for next month's EC summit in Copenhagen.

The rising $31.9bn cost of the Common Agricultural Policy, spending on new policies and expenditure controls are at the heart of the crisis. Page 22

Treaty talks

Soviet Foreign Minister Eduard Shevardnadze arrived in Geneva for a final pre-summit meeting with US Secretary of State George Shultz and said he was confident an INF treaty would be completed despite "certain difficult questions." Page 2

New Iran offensive

The US expected Iran to launch a fresh land offensive on its southern battlefront with Iraq, in the next six weeks. Page 4

Honecker first

East Germany's President Erich Honecker will go to France next January, the first time an East German leader has visited one of the Western allies responsible for Berlin. Page 2

Caracas choice

Venezuela's opposition Christian Democrat Copei Party chose Eduardo Fernandez, lawyer and party leader, as presidential candidate for next year's elections. Page 4

Rift result

Antonio Gutierrez, took over as new leader of Spain's combative trade union body, Comisiones Obreras, after a rift at its congress between the Communist party and its splinter factions. Page 6

Exile ends

Salvadorean left-wing leader Ruben Zamora, home from seven years in exile, attended Sunday mass in a bullet-proof vest to hear some harsh criticism of his guerrilla allies from the Archbishop of San Salvador. Earlier story, page 2

Ceasefire fears

The 48-hour ceasefire in hostilities between Indian armed forces and Tamil Tiger extremists in northern Sri Lanka was in the balance after a decision by India to reject the Tigers' conditions for laying down their arms. Page 4

Soweto bomb

A limpet mine explosion in South Africa caused extensive damage to municipal offices in the black township of Soweto following a week of attempts by municipal authorities to end a rent boycott by residents of the township. Page 4

Brazil poll favourite

Brazilian socialist Leonel Brizola who proposes suspension of interest payments on Brazil's $113bn dollar debt, won highest support as the country's next president with *15 per cent of a* newspaper opinion poll.

Beirut beatings

Syrian soldiers in charge of security at the American University of Beirut beat up students on campus and inside a men's dormitory in reaction to protests about strict rules on entry and exit from university grounds. Page 4

Cuban refugees riot

Hundreds of Cuban refugees detained in Louisiana, US, held 28 guards hostage and burned prison buildings to protest against a deal with Havana to send them home.

Franco memorial

Spanish riot police clashed with stone-throwing youths when 15,000 right wing supporters gathered in Madrid to commemorate the 12th anniversary of fascist dictator General Franco's death.

SAS plans partial bid for stake in BCal

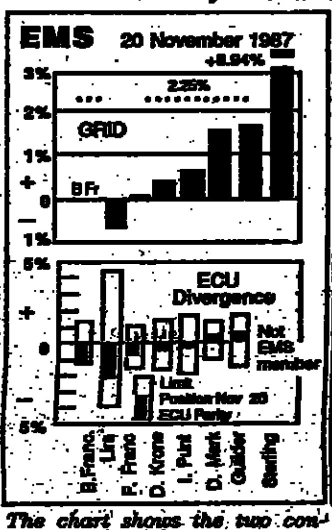
Scandinavian Airlines System is preparing to launch a partial offer for **British Caledonian Group**, to rival the £156m ($277.5m) full bid made last week by **British Airways**. BCal expects the SAS offer to come this week.

SAS is likely to seek a large minority stake in BCal, probably in conjunction with financial institutions. The package would also provide a cash injection for the financially troubled UK airline. Page 22

EUROPEAN Monetary System: The continued weakness of the dollar put further strain on weaker members of the EMS last week. The Belgian central bank sold a small amount of D-marks and the Italian central bank bought French francs at the fixing in Milan.

Concern about the lack of progress in talks to cut the US budget deficit meant that the D-mark attracted more demand than other member-currencies. The Dutch guilder and D-mark were the strongest currencies; the Belgian franc remained the weakest, though well within its divergence limits.

The Belgian authorities were sufficiently confident to announce a modest reduction in the key three-month Treasury bill rate.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

SAGA PETROLEUM, independent Norwegian oil company, posted a three-fold increase in its operational result in the third quarter to NKr 136m ($21.2m). Page 24

STATOIL president, Mr Arve Johnson, offered to resign following the cover-up attempt of a cost over-run on an expansion project. The Norwegian state oil company is to appoint a new board of directors this week.

GLAXO, Britain's biggest pharmaceuticals group, has two new unnamed drugs to follow its Zantac, its anti-ulcer treatment, which it hopes will put it in the world top three. Page 11

MOUNTLEIGH, the UK property group, has taken an option on a 63 per cent stake in troubled Norwegian property company Bugges Eiendom, but says it is not launching a financial rescue. Page 22

TRANSCANADA PipeLines has raised its interest in **Encor Energy Corporation,** the former Dome Canada, to 10.6 per cent through market purchases. Page 23

JAPAN'S three long-term credit banks reported mixed results in the six months to September. Page 24

CHINA has announced tough new restrictions on car imports and joint venture projects. Page 6

HONG KONG toy manufacturers are facing heavy losses as a result of their exposures to **Worlds of Wonder,** the beleaguered US toy company. Page 24

Thatcher remains firmly opposed to full EMS membership

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

MRS MARGARET Thatcher, British Prime Minister, remains firmly opposed to full British membership of the European Monetary System (EMS) since being linked to the Deutschemark would be too deflationary and would constrain the UK economy.

During a wide-ranging interview with the Financial Times, she also denied there is any exchange rate target for sterling, or that the pound is tied unofficially to a rate of just under or about DM 3.

Her remarks on exchange policy show a markedly different emphasis from the views of the Treasury and the Foreign Office. Both departments believe sterling should be in the exchange rate mechanism of the EMS.

In the course of a 75-minute interview in the White Drawing-room in Downing Street, Mrs Thatcher also said: "Britain will insist at the EC heads of government summit in Copenhagen next week on an unbreakable guarantee that agricultural surpluses will be reduced. As an alternative to a gradual reduction through stabilisers to reduce production ceilings, she is proposing a new "clean slate" approach whereby member states would write existing surpluses off their national budgets.

● A further instalment of tax reform is planned. "You can take it that Nigel (Lawson) is by nature a tax-reforming chancellor and that he will have another go in the coming term. There is still quite a bit of tax reform to be done." She hinted at action on the higher rates of personal tax which could not be allowed to get "too much out of kilter with those of rival countries."

● Any change in mortgage tax relief is "pretty well out"; "you may take it that the present structure goes on."

● Reducing the inflation rate down from the present 3 to 5 per cent annual range remains the Government's positive intention.

● Britain remains a "global power", for example, helping the US in Central America by having troops in Belize.

● The UK opposes any fundamental change in the Western defence policy, with no further nuclear weaponry taken out of Europe after an intermediate nuclear deal.

● She would like to remain prime minister at least until the next election in 1992-93. "The moment we have got past one milestone, you see them stretching out before you and each one gets more exciting."

Mrs Thatcher indicated during the interview that she remains as opposed as ever to full membership of the EMS. She said that everyone in Europe is geared to the D-mark except the UK. "The D-mark at the moment is slightly deflationary. That means the whole of Europe is geared to a slightly deflationary policy. Now we have not been so geared and we have had a greater degree of freedom in relation to both the dollar and the D-mark and I am grateful for that."

She stressed the advantages of this freedom and a natural caution, with a different economy from the rest of the EC, against going back *within strict limits.* She said Britain had profited from this approach by having a higher growth rate than if sterling had been in the EMS.

Mrs Thatcher also denied that the pound was tied to any specific range with the D-mark. She

Continued on Page 22

Margaret Thatcher

Pact on US budget faces widespread hostility in Congress

BY LIONEL BARBER IN WASHINGTON

THE US federal budget deficit reduction plan faces widespread opposition in Congress, raising doubts about prospects for its approval.

Political leaders in Washington yesterday expressed only lukewarm support for the two-year $75bn deficit reduction plan announced by President Reagan and Congressional leaders. Over the weekend both parties tried to sell the deal to Congressional membership. The House and Senate both have Democrat majorities.

There has been speculation that a credible US budget package would pave the way for a meeting of the Group of Seven industrialised countries to discuss exchange rates and prospects for world growth. But when the package was announced on Friday Mr James Baker, US Treasury Secretary, remained uncommitted.

"We need to devote our efforts over the next few weeks toward implementing this agreement so that we can deliver in the event there is a subsequent G7 meeting," he said.

His comments reflect the impending test of leadership for Mr Reagan and the Democrats both to sell the package as credible for financial markets and to persuade party members to leave its provisions intact.

But his caution also raised questions about Washington's level of support for another G7 meeting. Congressional inaction on the package would substantially weaken the US case for reflationary measures in Japan and West Germany.

The deficit for fiscal 1988 is projected to be around $180bn. The deficit reduction plan would slice $30bn from that figure and a further $45bn from next year's through a mix of spending cuts and increased taxes.

The package was agreed on Friday afternoon after four weeks of tough talks between the White House and Congressional leaders, prompted by last month's stock market crash.

Mr Jim Wright, the House Speaker, said the deal would need the support of both Republicans and Democrats to ensure passage. He was confident, but added: "It will depend on the support of the President and his (Republican) Party".

President Reagan, in his weekly radio address, said the agreement was "probably not the very best deal that could have been struck".

However, he said it sent "the right signal at the right time to governments and markets around the world".

Opposition to the deal crosses Republican and Democrat boundaries, and is magnified by the lack of party discipline in Congress where members look to their home constituencies rather than their own leaders, particularly as there is an election next year.

Republicans are angry that defence spending has been cut and taxes raised, while other social entitlement programmes have largely been left alone. Others worry about "phoney cuts," such as the $5bn in federal asset sales in the 1988 fiscal package.

Mr Jack Kemp, the New York Republican presidential candidate, has already attacked the deal. Even one of its chief Republican sponsors, Senator Robert Dole of Kansas, another presidential candidate, has barely endorsed it.

Democrat presidential candidates have also distanced themselves, while one of the most powerful Congressional leaders and signatories to the deal, Mr Dan Rostenkowski of Illinois, called it a "baby step in the right direction".

Mr Rostenkowski is chairman of the House ways and means committee, the tax writing panel. Citing Congressional prerogatives, he made clear that he would not allow the White House to dictate what sort of taxes will be part of the package.

Mr Robert Michel, House Republican leader, and signatory to the deal, hinted he could still move to support the alternative to the current package, the automatic across the board budget cuts mandated by the Gramm-Rudman law.

Mr Howard Baker, White House Chief of Staff, said that after four weeks of "tedious talks," the White House had no guarantee that Congress would deliver.

Editorial comment, Page 18

Pentagon official warns on SDI cuts

A SENIOR Pentagon official has warned that Congressional budget cuts could delay key experiments in the Star Wars missile defence shield by up to two years - casting doubt on the Reagan Administration's 1992 target date to start developing elements of the shield.

Mr Gordon Smith, deputy director of the Pentagon's Strategic Defense Initiative Organisation, also said early deployment of a crude missile defence system by the early 1990s was not feasible. Last week the Senate approved a fiscal 1988 defence spending bill which included $3.9bn for Star Wars research - $1.8bn less than President Ronald Reagan had requested. Details, Page 2

Iranian oil exports hit by embargoes

By Andrew Gowers in Washington

IRAN is reported to be encountering increasing problems in marketing its oil, partly arising from recent import bans by France and the US.

US officials say that the softness of the oil market and a reluctance of other major importers to take up the slack left by the embargoes has caused a sharp fall in Iranian oil revenues.

Oil traders believe that Iran's crude sales may have dropped as low as 1.4m or 1.5m barrels a day, about half the amount it was shipping in August when a lull in Iraqi attacks on its tanker fleet allowed it to boost exports dramatically.

Several full Iranian tankers are reported to be at sea without a buyer for their cargoes. Iran is also understood to be offering discounts of up to $2 a barrel to encourage sales.

The marketing problem will make it more difficult for the Tehran Government to fuel its war machine at a time when it is believed to be preparing a fresh land offensive against Iraq.

Officials hope this will augment pressure on Iran to consider a ceasefire in the Gulf war, called for by the United Nations Security Council more than four months ago.

Iranian oil tankers have also been coming under repeated attack from Iraqi warplanes. While this is believed to have increased the cost of Tehran's export operations it is not thought to have had much effect on the level of sales.

The apparent impact of the US and French import bans has come as a surprise. Although the US, in particular, was an important market for Iranian crude earlier this year, it was widely predicted when Paris

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Iran 'preparing new Iraqi assault', Page 4

East European trade position 'may worsen'

BY STEPHEN FIDLER IN LONDON

EASTERN EUROPEAN countries face a worsening trade position and have experienced a sharp increase in foreign debt which could result in a marked decline in the region's creditworthiness, according to documents prepared within the Organisation for Economic Co-operation and Development (OECD).

They conclude that East European governments are warranted in their belief that the "worsening in their internal and external financial position calls for radical solutions if they are to achieve a lasting improvement in their economies."

The documents, prepared confidentially for meetings last week of OECD committees, provide what are regarded as one of the most reliable assessments of Eastern bloc debts.

"In 1987, there appears to be a continuation of the basic trend of a weakened trade balance for Eastern Europe. With a rising debt load and higher interest rates, a wider deficit in the balance of current payments... an additional rise in debt appears likely," says one report.

Within that trend, Eastern Europe could improve its trade balance with the OECD group of industrialised nations this year, due mainly to the success of the Soviet Union in curbing imports, which could allow it to halve its deficit with market economies.

In trade with developed countries, the six East European economies - Poland, Hungary, Czechoslovakia, East Germany, Bulgaria and Romania - and the USSR showed a deficit of $3.48bn in 1986 compared with a $1.66bn surplus in 1985.

However, a sharp rise in arms sales by the Soviet Union helped to push the surplus with less-developed countries (LDCs) up to $8.73bn from $3.63bn. Nevertheless, this may have done little to improve the Eastern bloc's financial position because the countries continue to extend new credits to LDCs and have been obliged to reschedule debts to LDCs with payments problems. "Thus any reported surplus on trade with LDCs usually leads to much reduced gains in receipts of convertible currency," OECD staff says.

The gross hard-currency debt of the seven countries grew to $115.5bn at the end of last year, from $97.3bn at the end of 1985 and $82bn at the end of 1984. The figure is projected to rise to $126.7bn at the end of this year, which is not expected to be accompanied by any offsetting increase in reserves.

The OECD speaks of a distinct weakening of the debt position of Eastern bloc countries, and particularly of Hungary, which it said is nearing the point "at which one can see potential problems of creditworthiness developing unless effective corrective measures are adopted without undue delay."

The document concludes: "Indeed, unless current trends are reversed one can envisage a marked deterioration of the creditworthiness of the region in the medium term."

William Dullforce in Geneva adds: Soviet imports from the West could be set to recover from 18 months of decline, according to the latest annual bulletin from the United Nations Economic Commission for Europe.

The commission bases its forecast on an improvement in the Soviet Union's terms of trade with western market economies in the second half of this year and on an expectation of a further increase in the volume of Soviet exports.

Other East European countries will also enjoy improved terms of trade but their import growth

OECD reports, Page 2

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Lawson urges action on dollar as US agreement is praised

BY OUR POLITICAL AND FOREIGN STAFF

THE US budget deficit agreement received general praise, albeit tempered with caution, in world capitals yesterday.

In London, Mr Nigel Lawson, the UK Chancellor of the Exchequer, said the deficit package was perfectly adequate, but he added that a meeting of the Group of Seven leading industrial countries should take place some time next month.

He argued that the US budget package was only a first stage.

Mr Lawson repeatedly stressed the urgency of further action by the US and other countries. Above all, he said, there was a need for the US to be prepared "to join in international action to stabilise the value of the dollar".

Mr. Lawson said he did not expect a dramatic reaction in the stock market since the US package was very much along predicted lines, but he did think there would be a "better tone," now that expectations had become steadier.

Other countries would, he said, have to take "appropriate measures". Japan needed to keep its growth rate going satisfactorily, he said and, in the case of West Germany, whose economy was rather sluggish, there should be steps to liven it up. Japan should also take further steps to open its markets to imported goods.

Mr Jacques Chirac, the French Prime Minister, *said in Paris last night* after talks with Mrs Margaret Thatcher, the British Prime Minister: "We are very satisfied with the latest American decisions concerning the budget, which we judge very positive and likely to return calm to the currency world."

Paris remains, however, apprehensive about the general economic situation and eyes are being firmly fixed on market reaction to the budget agreement.

In a clear reference to Japan and West Germany, Mrs Thatcher said in Paris that other countries with budget surpluses should now work on measures to boost growth.

In Tokyo, Mr Kiichi Miyazawa, Japan's Finance Minister, said he hoped the budget agreement would have a favourable impact on the foreign exchange and capital markets.

But Tokyo expects to come under renewed pressure to reduce its interest rates as a result of the deal struck in Washington. The country's official discount rate stands at 2.5 per cent.

However, officals emphasised there were at the moment no plans to stimulate the economy.

In Bonn Mr Gerhard Stoltenberg, the West German Finance Minister, hailed the accord, saying it would contribute to restored stability on international share and foreign exchange markets.

European countries, he added, would now have to see "what contribution they could make themselves".

Mr Manfred Carstens, budget spokesman in the Bundestag for the CDU-CSU partnership which dominates the ruling coalition, ruled out further fiscal measures to stimulate the West German economy. The budget deficit of almost DM 30bn ($18bn) in 1988 represented "the limits of the possible," he said.

But he appeared to accept that the Government might tolerate a higher deficit should tax returns be lower than expected on account of weak economic growth.

Before the agreement was announced, Mr Edouard Balladur, the French Finance and Economy Minister, urged in a press interview that the US and West Germany help resolve the financial turmoil.

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FINAL PUSH TO ENSURE SUCCESS OF WASHINGTON SUMMIT

Shultz, Shevardnadze tackle INF obstacles

BY WILLIAM DULLFORCE IN GENEVA

MR GEORGE SHULTZ, the US Secretary of State, and Mr Eduard Shevardnadze, the Soviet Foreign Minister, begin a final attempt in Geneva today to ensure that President Reagan's December 7 summit meeting with Mr Mikhail Gorbachev in Washington turns out to be a success and not a failure.

Their most urgent task is to remove outstanding obstacles to an agreement scrapping intermediate range nuclear forces (INF) which has been over two years in the making and is due to be signed at the summit.

Mr Yuli Vorontsov, the Soviet deputy foreign minister, and Mr Max Kampelman, the chief US arms negotiator, failed to reconcile these differences last week.

On arrival in Geneva yesterday afternoon, Mr Shevardnadze said the talks represented the most crucial stage of preparation for the summit.

He expected the work on the INF agreement to be completed, but, he warned, some difficult and very sensitive questions remained to be settled.

These related to "the territories of the US and the Soviet Union" and to the involvement of third countries, Mr Shevardnadze said.

His remarks clearly referred to the core problem of verification and to US demands to have written into the treaty the right to inspect on challenge sites at which one side suspected the other was cheating.

Mr Shevardnadze's reference to third countries reflects a Soviet demand that it be allowed inspection rights at bases in Europe, where US missiles have been deployed, for several years after they have been removed.

Shultz: urgent task

Meeting for the fourth time in three months, Mr Shultz and Mr Shevardnadze face an intensive two-day schedule. They will have working lunches and dinners and, if necessary, will breakfast together on Wednesday before leaving Geneva, a US official said.

In addition to tackling the last-minute hitches over the arms agreement, they will try to put together for the summit an agenda covering the situation in the Gulf, the withdrawal of Soviet troops from Afghanistan, and human rights issues.

Diplomats in Geneva do not believe the outcome is certain, despite the obvious strong desire in both administrations for a successful summit. However, officials in Washington have gone out of their way to deny suggestions that the summit is in any way in danger.

President Reagan can only accept an INF treaty that is tight enough against cheating so as to satisfy US senators that have promised to go through it with a fine toothcomb. Mr Gorbachev similarly has to be able to convince his military leaders and possibly critics within the Politburo.

Both US and Soviet officials continue to stress that progress towards a final INF agreement, abolishing all nuclear missiles in the 500-5,000 kms range, is steadily being made. The regular negotiators in Geneva worked on the 150-page text through the weekend.

A political impetus is still needed, however, to settle the key verification issues. A reported Soviet concession that would allow the US to monitor the exits to a plant assembling long-range SS25 missiles with first-stages identical to those of the medium-range SS20s does not eliminate the issue of how to deal with suspected sites.

Pentagon casts doubt on target date for Star Wars

BY LIONEL BARBER IN WASHINGTON

A SENIOR Pentagon official, blaming Congressional budget cuts, has cast doubt on the Reagan Administration's target date of 1992 to start developing elements of the Star Wars missile defence shield.

Mr Gordon Smith, deputy director of the Pentagon's Strategic Defence Initiative Organisation, said the cuts would cause delays of up to two years in key experiments and development projects.

His comments, reported in the New York Times, further suggest that early deployment of a crude missile defence system by the early 1990s is not feasible. Last week, the Senate, following a similar vote by the House of Representatives, approved a fiscal 1988 defence spending bill which included \$3.9bn for Star Wars research, some \$1.8bn less than President Reagan requested. The figure could drop further under last Friday's biparisan budget package to cut the Federal deficit.

Conservatives are furious about the budget cuts and President Reagan's pact last week with Senator Sam Nunn of Georgia, the powerful chairman of the Senate Armed Services Committee. The pact ensured that the Administration will comply with the 1972 ABM Treaty's restrictions on testing and development of anti-ballistic missile defence systems for another year.

The compromise with Congress was backed strongly by the new US Defence Secretary, Mr Frank Carlucci. On Friday, Mr Carlucci effectively ousted a Pentagon hardliner on arms control, Mr Frank Gaffney, by turning down a long-standing request for promotion.

Mr Gaffney had been waiting for several months to succeed the former top Pentagon arms control official, Mr Richard Perle. Mr Gaffney then gave a news conference saying the Administration was rushing into an arms deal with the Soviet Union - a foretaste of future disagreement in the US on the superpower treaty to abolish medium-range nuclear missiles.

Honecker to visit Paris

EAST GERMANY'S President, Mr Erich Honecker, is to pay a landmark visit to France next January, the first ever by an East German leader to one of the three Western allies responsible for Berlin.

Mr Honecker has long sought to visit Paris, London and Washington in order to demonstrate that his country is fully accepted by the West. The visit to Paris was made possible when Mr Laurent Fabius, the then French Premier, visited East Berlin in 1985.

Along with Britain and the US, France has exercised sovereign rights in West Berlin since 1945. The French Government, along with the other allies, refuses to recognise East Berlin as the capital of East Germany.

Neither the British Prime Minister nor the US President has yet visited East Berlin, although Sir Geoffrey Howe, the UK Foreign Secretary, paid an offical visit in 1985 which was returned last year by Mr Oskar Fischer, East Germany's Foreign Minister.

The US Deputy Secretary of State, Mr John Whitehead, held talks in East Berlin with Mr Honecker earlier this month.

Trade picture 'is deteriorating'

Eastern European foreign debt is rising, says OECD

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

IN 1984, the countries of Eastern Europe were running their largest ever trade surplus with the West and reduced their hard currency debt for the third successive year.

Three years later, according to documents prepared by the staff of the Organisation for Economic and Co-operation and Development, their foreign debt is rising sharply and the trade picture is deteriorating.

"The improvement (evident in 1984) in their external position was only temporary and had no valid foundation," concludes one of the confidential documents, prepared for meetings of OECD experts last week.

This underlines, it says, the need for radical solutions to achieve a lasting improvement in the economies. It agrees that the restructuring under way, particularly in the Soviet Union, is right to focus on the entire economy and not simply on foreign trade, "especially in the light of the mixed results of the policy of large-scale imports followed by some Eastern European countries in the 1970s".

The report comments says that this year, "there appears to be a continuation of the basic trend of a weakened trade balance for Eastern Europe. In addition, with a rising debt load and higher interest rates, a wider deficit in the balance of payments and consequently an additional rise in debt arrears appears likely."

The hard currency debt of the Soviet Union and the six East European countries - East Germany, Poland, Hungary, Czechoslovakia, Bulgaria and Romania - has been increasing steadily since 1985, with gross debts rising to \$115bn (\$66bn) from \$82bn in 1984. Debts net of reserves rose to \$86.1bn last year from \$70.8bn in 1985 and the low point of just under \$60bn in 1984.

Projections for the end of this year suggest that gross debt will have risen to \$126.7bn and net debt to \$98.4bn. Of this, the Soviet Union's share is expected to rise to \$37.5bn in gross terms and \$24.3bn net.

However, while their reliance on private unguaranteed debt has been rising, the countries have made less use of public bank loans and bond issues. Publicised credits dropped to \$2.7bn in the first nine months of this year, from \$4.1bn in the whole of 1986 and a peak of \$6.3bn in 1985.

The forfaiting market, where the countries can obtain medium-term fixed rate trade finance at favourable terms, has plugged the difference, with the Soviet Union accounting for 70 per cent of East European borrowing from this source.

"With the rise in debt of Eastern European countries and the diffictilties in expanding exports, many debt-related indicators are beginning to show a distinct weakening," the report says.

The Soviet Union "still has a basically strong debt position" but "the likelihood is that the country's debt burden will rise over the medium-term and the Soviet Union will become a moderately indebted country".

Poland's debt burden remains extremely high. Private banks have been receiving full interest payments from Poland, but interest on official credits has not been paid in full since 1982. The Poles are seeking a rescheduling of official debts through the Paris club, similar to that it has arranged with banks, but are also seeking new official credits.

"A general improvement of political relations with governments has occurred. Some (OECD) governments are now willing to discuss new credits if the record of Polish payments on outstanding credits improves."

Hungary's debt "continues to rise to unprecedented levels and the country could find itself in a serious problem in the next few years unless a determined effort is made to reverse this downturn." It is the only country finding resistance in international financial markets and, partly as a result, East Germany said in October it would guarantee a Hungarian borrowing in the Eurodollar market.

Bulgaria's debt situation "has worsened appreciably", with gross debt more than doubling between 1984 and 1986. Reserves have also fallen considerably, due in large part to the country's dependence for hard currency earnings on a small group of oil exporting countries - Libya, Iraq and Iran.

East Germany and Czechoslovakia both showed a clear deterioration in their debt position in 1986, and debt is on a rising trend, although neither country appears to be in danger of an imminent financial problem.

Romania is the only country that continues to reduce its debt, but at considerable costs in import cuts and severe hardship to the population. "Due to irresponsible economic management, the country is viewed badly by the international financial community, despite its impressive record of debt repayment."

Soviet exports to the developed world fell 16 per cent in dollar terms in 1986, mainly because of oil, which accounted for 42 per cent of exports in 1986 compared with 63 per cent in 1984. Its trade deficit widened to \$3.63bn from \$845m in 1985. Exports of machinery and equipment - excluding arms - were up 48 per cent in dollar terms in 1986, but still accounted for only 3.4 per cent of Soviet exports to the West.

However, the Soviet Union increased arms sales to the Third World by almost 50 per cent in 1986, enabling it to post a record trade surplus with developing countries of \$6.6bn in 1986, compared with \$2.3bn in 1985.

East European Hard Currency Debt (\$m)

	1981	1982	1983	1984	1985	1986
Bulgaria	3,162	2,977	2,482	2,165	3,640	5,606
Czechoslovakia	4,598	3,998	3,612	3,135	3,511	4,254
East Germany	15,423	12,998	12,191	11,332	13,563	16,601
Hungary	8,699	7,952	8,250	8,836	11,745	15,086
Poland	25,468	24,780	26,440	26,800	29,700	33,526
Romania	10,159	9,766	8,880	7,198	6,634	6,395
Soviet Union	26,534	26,737	23,587	22,513	28,465	34,003
Total	94,043	89,128	85,442	81,917	97,258	115,471

Source: OECD Memorandum

Exiled left-wing leader flies back to El Salvador

BY PETER FORD IN SAN SALVADOR

A SALVADOREAN left-wing opposition leader, Mr Ruben Zamora, returned home from seven years of exile on Saturday, promising to help seek a negotiated solution to El Salvador's civil war.

"Our aim is to achieve peace through the path of politics and dialogue," said Mr Zamora, whose Democratic Revolutionary Front (FDR), is allied with the FMLN guerrilla forces. Central America's new peace plan, he added, "is a very good framework for the goals for which we are struggling."

Mr Zamora, 46, who is due to be joined on Monday by the FDR's president, Mr Guillermo Ungo, is running a severe personal risk in his efforts to build a left-wing political organisation in El Salvador. The extreme right-wing death squad, whose threats fored him to flee in 1980, are less active today, but still strike at will.

A dissident Christian Democrat, he has allied himself with two Social Democratic parties to form the Democratic Convergence, the first attempt at an above-ground left-of-centre movement since the war broke out. Many of the conflict's 60,000 victims have been civilians suspected of left-wing sympathies, killed by death squads widely believed to be linked to government security forces.

But Mr Zamora has refused to dissociate himself entirely from the FMLN, the Farabundo Marti Liberation Front, as President Napoleon Duarte has demanded.

"Our presence here does not call into question the political alliances our parties have formed," Mr Zamora told reporters on his arrival. That stance has aroused the ire of conservative political parties here, who charge him with being a Trojan *horse for the FMLN guerrillas.*

"They are aware they cannot win militarily, so while the FMLN continues the war, the FDR is entering the political sphere to create more problems for El Salvador," argues Major Roberto D'Aubuisson, a leading right-wing politician.

More moderate observers, however, including some in the ruling Christian Democratic Party, see the FDR's return as perhaps the last chance to free El Salvador from its growing political polarisation and its deadlocked war.

FINANCIAL TIMES

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With the ink barely dry on the accord, doubts are already surfacing about what it is likely to achieve, writes Stewart Fleming

Now the US faces the real problem - making the budget deal stick

CEREMONIAL occasions are normally tailor-made for President Ronald Reagan. But the performance at the White House on Friday afternoon at which Mr Reagan and the Democratic leadership of Congress announced they had reached agreement on a two-year $75bn package to reduce the federal budget deficit was one he would rather have been able to avoid.

It was not just that Mr Reagan was finally forced to validate Mr Walter Mondale's prediction in the 1984 presidential election campaign that, if elected, "Mr Reagan will raise taxes and so will I. He won't tell you, I just did."

By putting his imprimatur on the budget accord, he has once again infuriated the right wing of the Republican party and deepened division within Republican ranks, something which may help to explain why the two Republican leaders on the podium at the White House on Friday looked grim and never said a word.

The fact that, as part of the necessary symbolism surrounding the announcement, the President was having to share the stage with, and enhance the stature of, a smiling Mr Jim Wright, the Democratic Speaker of the House, can only have made the occasion that much more painful. Mr Wright, after all, can barely disguise his contempt for the President's abilities and policies.

Most troubling, however, to the President and his advisers is the question of what purpose is served by the enduring of such public indignities. For it is far from clear that the budget agreement reached after four gruelling weeks of negotiation on Capitol Hill will fulfil the objectives for which it was designed.

Induced by the stock market crash of October 19, these were essentially twofold:

- to provide at least a symbolic demonstration that the White House and Congress, Republicans and Democrats, could work constructively together at a time when the markets were crying out for leadership in Washington.
- to avoid triggering the automatic reduction in the deficit due to take effect on November 20 under the revised Gramm-Rudman-Hollings law. It was feared that relying on this process would be interpreted instead as further evidence of the inability of Washington's politicians to make the necessary, if hard, spending and tax choices.

> It is far from clear whether the agreement announced on Friday will indeed be implemented, and highly unlikely, even if it is, that the budget deficit in fiscal 1988 will be less than the $148bn recorded in 1987

Yet doubts do persist. One reason is that it is far from clear, first, whether the agreement announced on Friday will indeed be implemented, and highly unlikely, even if it is, that the budget deficit in the 1988 fiscal year will be less than the $148bn recorded in 1987.

Even on the official figures put out by the Congressional Budget Office last week, which project a budget deficit of $180bn for 1988, the agreement will only reduce the nominal deficit to $150bn-$160bn in 1989. This assumes of course that the economy does indeed grow at the real annual rate of more than 3 per cent on which these assumptions are based. Most economists are are predicting much slower growth as a result of the stock market crash, which implies a higher deficit.

Implementation is subject not only to the structure of the US Government but to the vagueness of the agreement itself. Certainly, Mr Reagan's initial conclusion on Friday, that much work remains to be done, cannot be doubted.

The package, for example, provides for some $9bn of what are called "hard taxes" to reduce the 1988 deficit. But, as a drawn Mr James Baker, the US Treasury Secretary, said on Friday, what has been agreed in the four weeks of meetings is not what taxes should be raised, but what taxes cannot be - namely "no delays of the marginal rate reductions in tax reform, no delays of indexing, no broad based value added tax or sales tax."

What happens now is that the Congressional committees which are responsible for writing tax legislation on Capitol Hill will go back to work and try to draw up, and get passed, a compromise tax package the elements of which will almost certainly be based on the tax bills that the House Ways and Means and Senate Finance Committees have already approved or drafted.

Raising taxes being the painful process it is, there will be plenty of scope for argument and disagreement within the committees and with the White House. Among the measures most likely to gain approval are an extension of the expiring 3 per cent excise tax on telephone charges, which would raise $1.8bn. Also under consideration are changes to tighten up corporate accounting rules and to limit mortgage interest deductions for the wealthiest taxpayers.

Congress will also have to draft legislation to implement the proposed $11.5bn of spending cuts proposed for 1988, just under half of which will come out of the defence budget.

Congressional budget experts say that the defence cuts could be reached quite quickly, although not without controversy. Liberal Democrats, in particular, are saying that the package, which leaves a projected defence budget of $285bn in 1988, up from the $280bn for 1987, does not hit the Pentagon hard enough.

Conversely, conservative Republicans are deeply sceptical that the spending committees will, in the crunch, actually produce the required savings. There are, for example, suggestions that a significant chunk of the savings could come from a foreign aid budget which has already been cut sharply to the dismay of Mr George Shultz, the Secretary of State, especially.

In the House, in particular, Republicans are furious that Mr Reagan has surrendered on taxes. Not least because it means that the Democrats are now in a position to rebut the politically damaging charge that they, and they alone, are the party of "tax and spend." Republicans are expected to desert the party leadership in droves in the House, which will make it harder for the Democrats to approve the package, for they, too, are bound to suffer defections.

In all likelihood, negotiation over the details of the package will not be completed before December 16, at the earliest. This date is itself another product of the Gramm-Rudman law, signed by the President on Friday, which allows Congress a cushion of 10 working days to modify the mandated cuts before actual "sequestration" takes effect. This week's Thanksgiving break thus gives Congress until December 16 to pass the new budget agreement and avoid the Gramm-Rudman axe.

Some in Congress are saying even now that it would be better to let Gramm-Rudman take effect because there would be no tax increases and the actual spending cuts would be greater. The White House counter is that the budget agreement is a two-year accord, not a one-year sequestration. This last process would, in any case, hit certain areas so hard as to invite the possibility of new supplemental bills later, thus negating any savings.

The fact that the political momentum for a budget deal which existed at the time of the stock market crash last month has dissipated in the weeks that have followed, has already made it hard to sustain the argument that Friday's announcement was a demonstration of Washington's ability to act in a convincing, bipartisan manner.

"What started as a confidence building excercise became an anxiety building excercise," is the view expressed on Friday by one leading Democrat in Washington.

In part it was the time taken haggling over the negotiations which accounts for this perception. But it is also the evidence in the package itself that the really tough issues which need to be addressed to provide an assurance that the deficit will be reduced in the years ahead, have once again been ducked.

"The really explosive area" of federal spending, according to Mr Jack Meyer, a budget expert in Washington, is spending on the aging, pensions, social security and medicare, veterans benefits in particular. But once President Reagan had placed what is, for middle class Americans, a generous social security retirement system out of bounds, the budget summiteers could find no way of getting it back on the table.

Waiting in the wings, in any case, is the octogenarian Democratic Congressman, Mr Claude Pepper, chairman of the House Rules Committee, which determines what legislation can go to the House floor, and a powerful advocate of the cause of the aged. Thus, apart from some modest ($2bn) trimming of medicare and farm and student loan programmes, so-called middle class entitlements have escaped largely unscathed, weakening both the long term signficance of the accord as a deficit reduction measure and its immediate impact as a manifestation of political determination.

What has emerged, therefore, is a package which, in fiscal terms, represents the minimum necessary to avoid the Gramm-Rudman sequestration process. In political terms, however, it looks more like business as usual, hardly surprising given the imminence of the election season.

In any case, public opinion polls show that although Americans agree that the deficit is a real problem, they like proposed remedies, such as tax increases or deep spending cuts, even less. Still lacking is any foundation for a more serious attack on the deficit when a new President takes office in January,1989.

PROPOSED BUDGET COMPROMISE

	FISCAL 1988 ($bn)	FISCAL 1989 ($bn)
REVENUES		
Hard taxes	9.00	14.00
IRS compliance (net)	1.60	2.90
User fees	0.40	0.40
Subtotal	11.00	17.30
SPENDING		
Defence	5.00	8.20
Non-defence discretionary	2.60	3.40
1989 effect of 1988 2% pay	0.00	2.40
Medicare	2.00	3.50
Farm price supports	0.90	1.60
Federal personnel	0.85	0.85
Other	0.25	0.00
Subtotal (entitlements)	4.00	5.95
Debt service	1.20	3.50
Subtotal (spending)	12.80	23.45
ADDITIONAL SAVINGS		
Asset sales	5.00	3.50
Other	1.40	1.60
Subtotal	6.40	5.10
TOTAL	30.20	45.85

Source: White House

Japan expects pressure to cut interest rates

BY IAN RODGER IN TOKYO

THE Japanese Government expects to come under renewed pressure to reduce its interest rates in the wake of the agreement reached in Washington to reduce the US federal budget deficit.

Officials of both the Bank of Japan and the Ministry of Finance had been careful not to rule out any further reduction in the country's official discount rate, now 2.5 per cent, once a US budget decision was reached.

However, they emphasised there were no plans at the moment to take any further fiscal or monetary measures to stimulate the economy, and they hope it will not be necessary.

Mr Kiichi Miyazawa, Finance Minister, said at the weekend that he hoped the US budget agreement would have a favourable impact on the foreign exchange and capital markets.

He said Japan would continue to take appropriate policy measures in line with the Louvre Accord of last February for stabilising exchange rates and co-ordinating economic policies with other leading industrialised countries.

He also pointed out that Japan had made a major effort to expand its domestic demand

Miyazawa

Paris relief tempered by sense of uncertainty

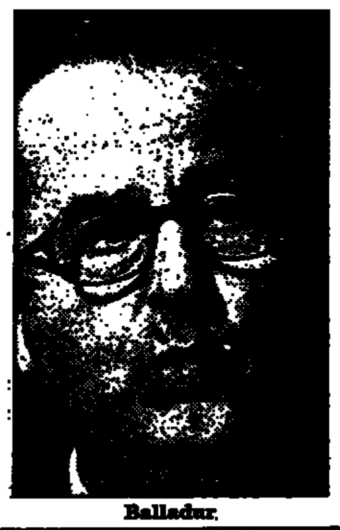
BY PAUL BETTS IN PARIS

THERE was a sense of relief in Paris at the weekend following the agreement in Washington over the US budget deficit. But the mood was hardly one of enthusiasm.

Paris remains highly apprehensive over the economic situation in general and all eyes at the weekend were fixed on the reaction of the financial markets to the latest US agreement.

The bourse ended on an uncertain note last week with the stock market index shedding 2.5 per cent on Friday before news of the agreement reached Paris.

The general mood of uncertainty was underlined by the lack of any official reaction on the part of the French Government and leading economic operators.Before the agreement was announced, Mr Edouard Balladur, the Finance and Economy Minister, in a French newspaper interview again urged the US and West Germany to make efforts to help resolve the current financial turmoil.



Balladur

Stoltenberg finds deal 'effective and credible'

BY HAIG SIMONIAN IN FRANKFURT

POLITICIANS IN Bonn reacted positively at the weekend to news of the US budget deficit deal.

The agreement is "effective and credible", said Mr Gerhard Stoltenberg, the federal Finance Minister, and would contribute to restored stability on international share and foreign exchange markets.

The accord was "an important contribution to the continuation and renewal of international co-operation after the Louvre agreement," he added. European countries would now have to see "what contribution they could make themselves."

However, Mr Manfred Carstens, the budget spokesman in the Bundestag for the CDU-CSU, the main partner in the ruling coalition, yesterday ruled out further fiscal measures to stimulate the West German economy.

The budget deficit of almost DM30bn (£10bn) in 1988 represented "the limits of the possible," he said.

Nevertheless, echoing recent hints by Mr Stoltenberg, he appeared to accept that the Government might tolerate a higher deficit should tax returns be lower than expected

OVERSEAS NEWS

US says Iran preparing new assault against Iraq

BY ANDREW GOWERS IN WASHINGTON

THE US expects Iran to launch a fresh offensive on its southern battlefront with Iraq, perhaps within the next six weeks, bringing sharply into focus once again the lack of progress in United Nations efforts to end the war.

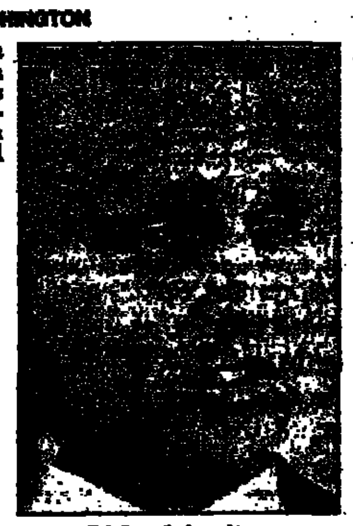
Mr Richard Armitage, Assistant Secretary of Defence, said at the weekend that such an offensive may be launched in January.

Officials said there had been signs of preparation over the last four weeks, with volunteer forces mustering in Tehran and provincial capitals and movement around the southern city of Ahwaz. Iran's Supreme Defence Council has already sought to rally the country for a big push against Iraq.

Although some officials say Iran appears better equipped in such fields as artillery than it was in 1986 when preparing a similar offensive, Mr Armitage insisted that Tehran's chances of a breakthrough were "less than 25 per cent."

Many observers believe that at the beginning of 1987 Iranian forces came perilously close to penetrating Iraqi defences around the southern port of Basra.

US and other opinion is divided over the implications of the possible preparations for a fresh offensive. Administration officials say it demonstrates conclusively that Iran has no intention of complying with a four-month-old call by the UN Security Council for a ceasefire in the Gulf war and that the Council should therefore move swiftly to pass a second resolution ordering an arms embargo against Tehran.



Richard Armitage

However, other analysts believe, that a new Iranian offensive would not be particularly significant and that Tehran *is still interested in negotiations.* Mr Gary Sick, a leading US expert on Iran, told a conference on the Middle East last week in Atlanta: "The Iranians have decided that the war is not working the way they want. They are looking for a face-saving way out."

He suggested that Mr Javier Perez de Cuellar, the UN Secretary-General, appoint a special envoy to shuttle back and forth between Tehran and Baghdad.

Mr Perez de Cuellar is still trying to mediate, but his task has not been made any easier by an apparent hardening of the positions on both sides in the last few weeks. In written replies to the UN's ceasefire call three weeks ago, both Tehran and Baghdad appeared *to back-pedal* on earlier signs of flexibility.

Iraq insisted that UN resolution 598 be implemented in strict sequence, with a full ceasefire and withdrawal before any consideration of an inquiry into the origins of the war as demanded by Iran.

In its reply, Tehran raised the question of war reparations by Iraq (rather than other Gulf Arab states) and said that withdrawal to pre-war borders could not easily take place because there had been no internationally-recognised frontiers since Iraq tore up its 1975 Algiers agreement with Iran - one of the original causes of the war.

However, the optimists are encouraged by the fact that both sides are still showing more flexibility in private discussions with Mr Perez de Cuellar. They include the Soviet Union, which, along with China, is still hesitating about an arms embargo.

SHIPPING REPORT

Dollar fall benefits charterers

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

THE QUEUE of very large crude carriers (VLCCs) waiting to load in the Middle East Gulf was drastically reduced last week as charterers took advantage of the weaker dollar and lower oil prices.

Brokers said rising inventory levels could put a brake on chartering business. They suggested, however, that delegates to the forthcoming conference of the Organisation of Petroleum Exporting Countries (Opec) would face difficulties in raising or even maintaining oil prices in the short term.

E.A. Gibson, the London broker, said Western charterers were concentrating on November positions from the Gulf, while Japanese charterers were fixing up to a month ahead.

About half a dozen VLCCs remained available for fixing up to the end of the month. Rate levels were said to have settled at around Worldscale 45 for Western discharge, plus five points for Japan and a further five points for the shorter haul to the Red Sea.

There was less demand for smaller ships, and a US major was said to have covered its 105,000-tons cargo to Singapore at Worldscale 85.

Business was brisk in West Africa, where demand was said to be very healthy, particularly for vessels capable of carrying 1m barrels of oil.

Brokers said most of the fixtures concluded in this area were private, but a London major was said to have covered its 122,600-tons cargo at Worldscale 75 for discharge in the UK, or Worldscale 70 for US Gulf discharge.

Demand was spasmodic in the Mediterranean, where most inquiries were for ships of between 60,000 and 80,000 dw tons.

Syrians 'beat up Beirut students'

By Nora Boustany in Beirut

SYRIAN soldiers in charge of security at the tightly guarded American University of Beirut beat up students on campus and inside a men's dormitory in reaction to a protest at strict regulations governing passage in and out of the university grounds, police and university sources said yesterday.

Students said seven out of 37 residents of the Penrose men's dormitories were taken to hospital after Syrian soldiers had thrashed them with rifle butts. Some students suffered broken ribs, one had his ear mauled and two had deep gashes in their necks.

Classes were suspended yesterday by students who staged a sit-in at the main gate of the institution, defying Syrian troops.

Syrian soldiers protecting the university clamped down on the Abdel Aziz quarter in West Beirut after explosives concealed in a chocolate box and carried by a woman visitor devastated a section of the American University hospital lobby, killing seven and maiming 31.

Access gates from the dormitory to the campus have been locked, necessitating a walk around the sprawling grounds to get in or out of classes.

A joint force of Lebanese police and Syrian soldiers have been assigned to the task of safeguarding the institution which has 5,700 students. Some 7,000 Syrian troops were deployed in West Beirut last February to quell militia anarchy and help police the Moslem-dominated sector of the Lebanese capital.

A statement issued by the university board of deans said the incidents were triggered by dissatisfaction over recent security measures enforced on campus following the explosion and called on students to exercise maximum tolerance during these critical times.

Students sleeping at the dormitories come from various areas of Lebanon and from all religious sects.

Sri Lankan ceasefire in balance

By John Elliott in New Delhi

THE 48-hour ceasefire in hostilities between Indian armed forces and Tamil Tiger extremists in the north of Sri Lanka hangs in the balance this morning after a decision by India last night to reject conditions proposed by the Tigers for laying down their arms.

The ceasefire was introduced unilaterally by India for 48 hours from Saturday morning in an attempt to establish a basis for ending its six-week-old military *action* against the *Tigers*, in which more than 250 Indian troops have died.

Over the weekend, Mr Gopalasamy Mahendra, alias Mahathiya, deputy leader of the Tigers, sent pre-conditions to Indian army commanders in Sri Lanka for surrendering Tiger weapons. These included Indian troops returning to positions they held on October 10 before the hostilities began.

The Government last night rejected the pre-conditions, which he said would have given the Tigers freedom "to go on the rampage again in Jaffna and in the eastern province to massacre fellow Tamils and members belonging to the Sinhalese and Muslim communities."

The ceasefire is reported to have been implemented by both sides during the weekend, but there is now a risk that hostilities could resume after 7 am today when the 48 hours expires because India has not yet officially introduced an extension.

The possibility of Mr Velupillai Prabhakaran, the Tigers' leader, visiting India for talks is believed to have been discussed but no decision has been reached.

The Government last night claimed that more than 100 Tigers wounded in action with Indian troops had been forced by their leaders to commit suicide with cyanide pills.

Greek Cypriots in protest

By Andreas Hadjipapas in Nicosia

SEVERAL hundred Greek Cypriot women yesterday stormed through the United Nations-controlled buffer zone west of Nicosia, and entered Turkish-held territory to protest against the continuing division of the island.

The demonstrators were members of the Women Walk Home movement.

The protesters crossed the "green line" and went past Turkish military outposts to face about 50 armed Turkish soldiers, who called for reinforcements.

About 200 Canadian and other UN troops formed a cordon around the women, who staged a sit-down until sunset.

Caracas opposition chooses candidate

BY JOE MANN IN CARACAS

VENEZUELA'S opposition Christian Democrat Copei Party has chosen Mr Eduardo Fernandez, a 47-year-old lawyer and party leader, to be its presidential candidate in next year's national elections.

Mr Fernandez, currently Secretary General of Copei, won the candidacy in a party congress in Caracas, where he obtained 67.4 per cent of votes cast by over 8,900 delegates. He defeated two contenders: former President Rafael Caldera, aged 71, with 24 per cent of the votes, and Senator Pablo Aguilar, a party leader in his 50s, who obtained just under 8 per cent.

The Christian Democrat candidate is the younger of the two presidential contenders representing Venezuela's major political parties; he has offered Venezuelans "a new democracy" and has made special appeals to young voters.

In elections scheduled for December, 1988, Mr Fernandez will face aformer president, Mr Carlos Andres Perez, 65, who represents the ruling Democratic Action (AD) party.

AD and Copei have dominated Venezuela's political scene since the last dictator was ousted in 1958. Since then, AD - the country's largest party - has won control of the presidential palace four times, while Copei has won the presidency twice.

Copei's decision to choose Mr Fernandez after a bitter internal campaign represented a humiliating defeat for former President Caldera, who founded the party and has been its presidential candidate all but twice in campaigns held since the 1940s.

Mr Caldera accepted the election results, and said he would join the party's "reserve." Although his defeat has not caused an open division in the party, it is far from clear if Mr Caldera's supporters will help Mr Fernandez in the 1988 campaign.

Soweto council offices wrecked

By Jim Jones in Johannesburg

A BOMB explosion caused extensive damage to municipal offices in the black township of Soweto on Saturday morning. Police said the device was a limpet mine.

Another unexploded device was found by bomb squad personnel.

The explosion follows a week of attempts by Soweto's municipal authorities to end a rent boycott by residents of the sprawling township.

Last week municipal officials backed by police and army units served hundreds of defaulting residents with eviction notices.

The rent boycott in Soweto and other black townships has been in operation for about 17 months in protest against living conditions in black areas and against municipal councils whom the protesters say are implementing the Government's apartheid policies.

OVERSEAS NEWS

US sanctions likely over meat ban

BY PETER MONTAGNON, WORLD TRADE EDITOR

THE US is expected shortly to announce trade sanctions against the European Community in retaliation for a plan to ban the use of hormones in meat, regardless of last week's Brussels decision to delay the impact of the ban for a further year.

However, once announced and subjected to public vetting, the sanctions would be quickly suspended for the duration of the transitional period, which lasts until January 1, 1989.

The announcement would underline the view of the Reagan Administration that the delay in the ban does not solve the dispute, which arose when US meat producers complained they would lose more than $130m in sales of meat to Europe under the ban.

The move would also be in line with the Administration's increasingly evident effort to demonstrate to Congress that legislation for dealing with trade disputes is sufficient and does not need to be tightened up in the omnibus trade legislation being debated on Capitol Hill.

EC farm ministers agreed in Brussels last week to phase in the ban over 12 months from the start of next year. During this time the ban on the use of hormones would go ahead, but meat containing hormones could still enter the EC.

The aim was to head off a potentially damaging trade war as the US had threatened to impose sanctions as soon as the ban was imposed.

However, the US, which has been pressing for the ban to be revoked, considers that its suspended sanctions are a justifiable way of mirroring the EC's action in suspending the ban as far as third country exporters are concerned.

Amid signs that US Congressmen are retreating from extreme forms of protectionism in the wake of the stock market crash, hopes are growing in Washington that the controversial and unwieldy trade bill may be dropped in favour of a simpler piece of legislation.

However, the outcome remains uncertain and with debate at a sensitive stage the Administration is reluctant to let go of its tough trade policies.

Canon, Ferranti reach semiconductor accord

BY TERRY DODSWORTH

CANON, Japanese camera and office equipment group, has reached agreement with Ferranti of the UK on the supply of a new range of high-speed semiconductors for its next generation of facsimile machines.

The deal reflects recent efforts by the Japanese company to expand its purchases and manufacturing operations in Europe, where it has been under fire on anti-dumping grounds. It is likely to be followed by a further link with a British group to supply software for Canon's office or medical equipment activities.

"We have been trying to find a British software company for a collaborative project for some time," says Mr Ryuzaburo Kaku, the group's president. "Up to now we have had some difficulty in finding a good candidate."

Although Canon makes its own range of semiconductors, it has turned to Ferranti for help with the facsimile machine project because of the UK company's expertise in very high speed integrated circuits.

This type of technology is required for facsimile machines which work on digital telephone networks, where the pace of transmission will be much faster than on the present range of equipment.

The two companies aim to develop the chip together, but it will be made at Ferranti's manufacturing facility in the UK. Delivery is planned to start in 1989, at a time when digital facsimile machines are expected to begin to make an impact because of the wider availability of digital switching and transmission techniques.

Mr Kaku, speaking in Tokyo where Canon is celebrating its 50th anniversary with a lavish display of its latest range of products, said that these two projects in the UK illustrated the company's commitment to generating more jobs and wealth in Europe.

He strongly rejected recent claims that Canon was operating "screwdriver" plants elsewhere in the European Community by importing most of the parts it needs for local assembly. "We have been manufacturing at Geissen in West Germany for 13 years and in Brittany, for four," he said. "The French government has been very supportive while we built up production."

Spanish union elects leader after infighting

BY DAVID WHITE IN MADRID

MR Antonio Gutierrez, aged 36, took over at the weekend as the new leader of Spain's most combative trade union body, Comisiones Obreras (Workers' Commissions), in a congress marked by the bitter rift between the mainstream Spanish Communist party and its splinter factions.

The new secretary-general, elected by a vote of almost 75 per cent, faces the hard job of replacing 69-year-old Mr Marcelino Camacho, leader since the union's clandestine origins under the Franco regime. Mr Camacho, a former metalworker and widely popular is taking up an honorary post as president of Comisiones.

Mr Gutierrez, until now the organisation's press chief, a former welder and long-time Communist and union official, is recognised as a tough but undogmatic negotiator. However, he is relatively unknown to the public and is criticised by union rivals as a "bureaucrat".

In close allegiance with Mr Agustin Moreno, who has been in charge of "union action," he emerged over the past few months as the certain successor. He was backed by Mr Camacho and had powerful support in the main sectorial branches and almost all the regional branches of the union.

The strong majority of so-called *gerardistas* - those who have stuck by the moderate Communist party leadership of Mr Gerardo Iglesias - among the 1,000 delegates at the congress ruled out the chances of Mr Julian Ariza, a one-time close comrade of Mr Camacho, long considered his natural heir and now part of the breakaway party headed by Mr Iglesias's predecessor, the veteran Mr Santiago Carrillo.

Mr Ariza has accused the *gerardistas* of moving the union to the right. The Carrillo camp, advocates of a harder line, suffered earlier defeats when its representatives were ousted from the union leadership in the Basque country and from control of Comisiones' most important industrial branch, the metalworkers.

China curbs car imports

BY ROBERT THOMSON IN PEKING

CHINA HAS announced tough new restrictions on car imports and joint venture projects to complement a ban introduced two years ago on most imports after a flood of foreign cars swamped the domestic market.

The ruling State Council issued a circular suggesting that the 1985 ban brought the "blind" importation of cars under control, but some provincial officials have recently increased imports of cars and parts, so further controls are necessary.

The document emphasised that restrictions must be tightened to ensure "a healthy development of China's car industry and accelerate the manufacture of cars domestically."

Chinese automobile industry officials have criticised provinces for signing assembly line contracts with foreign companies.

Only long-term government-to-government trade agreements are excepted from the ban.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION
(1980 = 100)

					% change over previous year
	Oct '87	Sept '87	Aug '87	Oct '86	
US	121.3	120.5	120.6	115.4	+5.1
	Sept '87	Aug '87	July '87	Sept '86	
UK	113.8	115.0	114.2	111.4	+2.2
Japan	129.1	125.2	126.6	122.6	+5.3
	Aug '87	July '87	June '87	Aug '86	
Italy	98.1	101.7	101.2	97.6	+0.5
Netherlands	105.0	107.4	105.7	105.5	-0.5
France	102.3	104.3	104.4	100.6	+1.7
W.Germany	106.5	104.9	100.0	104.5	+1.9

Peter Marsh on the role of Zantac and two other likely winners

Glaxo aims for world's top three

IS THERE life after Zantac? That is the question drugs industry analysts are asking of Glaxo, Britain's biggest pharmaceuticals company, which has had a meteoric rise largely through sales of its anti-ulcer formulation.

Glaxo, an industrial laggard in the 1970s, has soared to become the world's sixth-biggest drugs enterprise, a rise that the company, in spite of a recent slowing of growth, hopes will continue.

Mr Bernard Taylor, chief executive, says Glaxo is on course to take a place, by the early 1990s, among the top three in the industry, positions now occupied by Merck of the US, Hoechst of West Germany and Switzerland's Ciba-Geigy.

Zantac, the world's biggest-selling drug, last year accounted for just under half Glaxo's £1.73bn total sales, which yielded £746m pre-tax profit. The drug's potential is by no means exhausted, Mr Taylor says.

He expects that in 1992 Zantac will still contribute about 40 per cent of total sales, although he is cautious about predicting what that figure will be.

As to whether Glaxo will stay a success story in the 1990s, much depends on two drugs in the company's development pipeline, neither yet having a brand name yet both of which appear to have highly promising prospects:

- One product combats sickness in cancer patients and may also treat mental problems ranging from anxiety to schizophrenia.
- The other is for treating migraine.

Glaxo plansto sell them, respectively, next year and in 1991.

Onlookers are forecasting annual sales worth hundreds of millions of pounds for both items. Mr Peter Woods, an analyst at Barclays de Zoete Wedd, said: "The drugs have as big a potential as Zantac, if not more."

Mr Paul Diggle, an analyst at Warburg Securities, said Glaxo "remains an outstanding growth prospect." He agrees with Mr Taylor's assessment of Glaxo's likely position in the industry in the next decade.

Such general enthusiasm stems from:

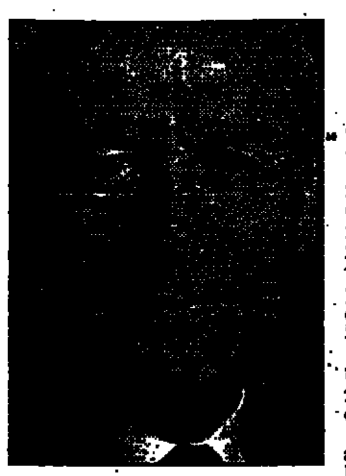
- The large potential market for both products: analysts are particularly excited about the drug for migraine, a problem which is almost untreatable medically, sufferers' main recourse being to retire to bed with the curtains drawn.
- The impressive way they work: both selectively switch on or off receptors, that is parts of protein chains which regulate aspects of the body's behaviour.

That selectivity cuts side effects and is especially important in treating mental problems where many drugs used today cause drowsiness or addiction.

The migraine drug operates particularly cleverly in attacking what is thought to be at the root of the condition: in migraine sufferers, tiny shunt vessels in the body's vascular system open up in the region of the head, depriving the brain of blood and causing blinding headaches.

The drug acts as though controlling a set of points on a railway line, triggering a process which closes the shunts to restore circulation.

Besides those two products, Glaxo has about six other potential money spinners in its development chain, observers say. They are for treating a range of conditions including infectious diseases, bronchial problems and ulcers.



Bernard Taylor: group moving from sixth position

The company itself also expects a good contribution to revenue from other drugs already on sale, or which are about to be released.

They include Ventolin and Volmax, for treating asthma, and the antiobiotics Fortum and Ceftin - also sold as Fortaz and Zinnat.

Observers agree that Glaxo's record and good prospects are rooted in its willingness to commit much money to clinical trials and marketing early on in the development cycle for medications.

The strategy aims to shorten the time between invention of a product and the start of sales, which in the drugs industry typically takes about 10 years.

Relatively short development cycles, of seven years in each case, appear likely both for the cancer/anxiety drug and for the anti-migraine formulation. Short development should save money in clinical trials and enable the company to release the products ahead of competitors.

Mr Taylor says the migraine medication exemplifies how Glaxo spends money on specific medications: Glaxo has organised, at least four years before the drug is available on general prescription, a marketing effort costing £1m so far, aimed at identifying potential users.

The campaign should ensure that the company extracts maximum revenue from the product once it is on sale.

Mr Ian White, a drugs-industry analyst at Greenwell Montagu, a London stockbroker, says Glaxo is much more selective than comparable companies in choosing products to develop.

While others may spread resources over perhaps 20 to 30 formulations, Glaxo is likely to concentrate on no more than 10.

Mr White says other companies lack the courage to focus expertise in this way. "Senior managers usually find it more comforting if they can point to a lot of products in their portfolio."

Mr Taylor concedes that Glaxo's policies are not without risk. If a drug on which the company sets great store fails at the end of development then the company can lose much money.

An example was an anti-ulcer product using loxtidine. It once looked as though it might be a bigger winner than Zantac but was abandoned two years ago after fears about toxicity.

"We were going like a steamtrain at the time," says Mr Taylor. "I wouldn't like to tell you how much money we wasted."

Fitness report on women urges healthier lifestyle

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

ALTHOUGH IT is a familiar fact that women have a greater life expectancy than men, a report by the Office of Health Economics today suggests that they too often fail to maximise their advantage by adopting healthy lifestyles.

Cigarette smoking - there are now more young female than male smokers - alchohol consumption, bad diet and lack of exercise are all factors that the report believes require attention. Moreover, contrary to the popular view that heart disease is largely a male problem, it is in fact responsible for 63 premature female deaths a day.

Girls newly born in England and Wales have a life expectancy of 77.7 years compared with 71.8 for boys.

Those figures leave Britain relatively low in the life expectancy rankings for developed nations. Women in Japan, Iceland, Switzerland, France, Sweden, the Netherlands, Norway, Finland, Spain, Greece, the US, Germany and Italy can all expect to live longer.

Like much other recent research, the Office of Health Economics report draws attention to the "substantial discrepancies in health" that exist between groups within the British population, particularly when viewed in terms of social class. In spite of the difficulties in comparing data there is, it says, a broad relationship between mortality and social standing.

Of women aged 16-19 years, 32 per cent are now cigarette smokers compared with 29 per cent of young men of the same age. The report says more than 50,000 women aged 17-29 consume alchohol at a level harmful to health.

Women's Health Today. Office of Health Economics 12 Whitehall, London SW1A 2DY. £1.

Meat plant upgrading

FINANCIAL TIMES REPORTER

AMBERLEY FOODS, the bacon and cooked meats company, is to spend more than £4m to upgrade its three UK factories.

More than 75 per cent of the investment will be made at the Middlesbrough bacon factory, where capacity will be almost doubled to 8,000 pigs a week by mid-1989.

The plant will become the main source of cured bacon for slicing and packing facilities at Thamesmead, south-east London, and Tipton in Staffordshire.

The company hopes to double its 5 per cent share of the UK bacon market.

Borrowing 'may have to rise to safeguard jobs'

BY MICHAEL PROWSE

A SHARP increase in public borrowing may be necessary next year to sustain the momentum of UK growth and ensure further substantial falls in unemployment, says the Employment Institute in its latest economic report, out today.

The pressure group argues that a public-sector borrowing requirement of £7.5bn, 1¾ per cent of gross domestic product, might not be imprudent.

That compares with the Chancellor's forecast of a £1bn PSBR in 1988-89 and his hint in the Autumn Statement that borrowing might go up as far as £4bn if circumstances warranted it.

The institute argues that private sector borrowing, which has been buoyant in recent years, might remain static in nominal terms as a result of the stock market crash and the prospective slowdown of economic growth.

If that happens, public borrowing of only £1bn would risk total borrowing falling from 19 per cent to 17 per cent of GDP "at a time when the economy may require a boost rather than a dampener".

Higher borrowing would allow a £6.5bn increase in government spending "targeted so as to increase employment in labour-intensive areas such as health and inner-city construction."

In the absence of a fiscal boost, the institute projects employment growth of only ½ per cent in 1988. That would be only a third of the increase this year and the worst performance on jobs since 1983. It would be "touch and go whether unemployment continues to fall".

Unemployment has fallen by 400,000 in the past 12 months, but only against a backdrop of a 4 per cent increase in GDP, which is not expected to be sustained, and a tightening in benefit regulations. Without the tighter rules, says the institute, only about 250,000 people would have been taken off the register.

The report accepts that if the UK reflated next year and other countries failed to follow suit, the result might be a widening of the balance of payments deficit. But it says Britain would have no difficulty financing a current account deficit of £7bn - twice the Chancellor's forecast - given the huge surplus of foreign assets over liabilities.

Economic Report. Employment Institute, Southbank House, Black Prince Road, London SE1 7SJ.

Alan Pike studies the thinking behind recent changes in benefits

Guaranteed benefits of working

THE QUALIFYING period for unemployment benefit claims from people deemed to have left their jobs voluntarily, which was six weeks until last autumn, will be increased to six months by next spring.

From next autumn the Community Programme for the long-term unemployed is to be merged with the Job Training Scheme to create an initiative in which participants will receive an allowance consisting of unemployment benefits plus a premium. At the same time, benefits will be withdrawn completely from young people who refuse places on the Youth Training Scheme.

The moves are seen by opposition MPs as mounting evidence that the Government is moving - in reality if not in name - towards a work-for-benefit system on the lines of Workfare in the US.

Ministers believe they should discourage people from leaving jobs voluntarily without just cause and hope that six months' disqualification will help do that. However, benefit claims from people leaving voluntarily rose by 12 per cent in the nine months after October 1986, when the Government increased the disqualification period from six weeks to its present 13.

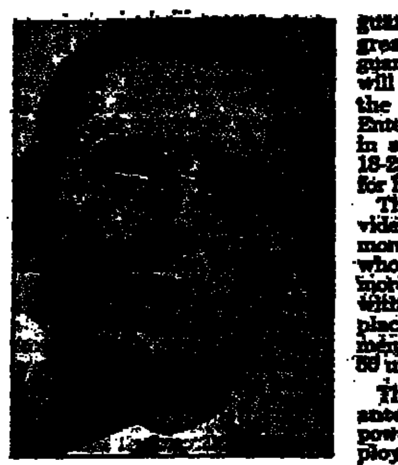
Last year, the Government launched its Restart Programme under which everyone who has been unemployed for more than six months is invited for a cup of tea and individual interview at the local Jobcentre. The mere threat of the cup of tea has proved enough for some benefit claimants, who were presumably moonlighting, to disappear from the register.

Restart's main aim, however, is to increase the chances of the long-term unemployed getting back into the labour market rather than to shake out fraudulent claims. In areas of high unemployment, Jobcentres have few normal jobs to offer their Restart candidates, and the most likely outcome of an interview is the offer of a place on the Community Programme or the Job Training Scheme.

The Community Programme currently provides 229,000 people with mainly part-time work on socially worthwhile projects. Its average wage limit of £67 a week is modest but is related to actual pay rates.

The Job Training Scheme, by comparison, is the first example of a scheme in which participants receive only the equivalent of their benefit. It offers more structured training than the Community Programme, but has been opposed by the Trades Union Congress and currently has only 24,000 participants, against ministers' original expectation that it would by now have reached 110,000.

The new single scheme will end the Community Programme's link with job rates and replace it by a link with benefit payments. Interest groups such as the Unemployment Unit,



Norman Fowler: modest rise in premiums

which undertakes research and campaigning activities on unemployment, believe that when the premium above benefit levels is announced it will prove a modest one. All that Mr Norman Fowler, Employment Secretary, has said so far is that it will be more than £5 a week.

One of the main arguments advanced by ministers in support of their decision to withdraw benefits from young people who refuse places on the Youth Training Scheme is that the Government is guaranteeing YTS places to all who need them.

The Conservative election manifesto sets out other, similar guarantees, each time placing great emphasis on the word guarantee. Within a year, there will be a guarantee of a place on the Job Training Scheme, the Enterprise Allowance Scheme or in a Jobclub for everyone aged 18-25 who has been unemployed for between six and 12 months.

There is another pledge to provide Restart interviews at six-monthly intervals for all those who have been unemployed for more than six months, leading within five years to the offer of places on training or employment schemes to everyone under 50 unemployed over two years.

The reverse side of such guarantees is the Government's power to disqualify from unemployment benefit anyone who has "neglected to avail himself of a reasonable opportunity of a place on an approved training scheme".

That leads groups such as the Unemployment Unit to conclude that moves towards work-for-benefit schemes will continue.

Prof Peter Townsend, Professor of Social Policy at Bristol University and a leading authority on poverty, agrees that policy seems to be moving towards making people work for benefits.

"Since 1979 the whole development of policy appears to have been based on the government theory that the unemployed receive too much income and do not have sufficient incentive," he says. "The theory was never justified but it has been pursued vigorously."

MSC sets out main aims for regional training boards

BY CHARLES LEADBEATER

THE TRAINING Commission, which will replace the Manpower Services Commission from the middle of next year, should have four priorities, which should be implemented through local training boards with the power to draw up training plans for their regions, according to the MSC.

The MSC's view of the main aims of the Training Commission are outlined in a letter from Sir James Munn, the commission's acting chairman, to Mr Norman Fowler, Employment Secretary.

Sir James identifies the Training Commission's main tasks as:

- To provide a more coherent system of vocational education and training for young people by bringing together the Training and Vocational Education Initiative in secondary schools, vocational education in non-advanced further education and the Youth Training Scheme.
- To encourage greater convergence between programmes for the adult unemployed, through the implementation of the Government's plans to establish a unified training programme for this group.
- To secure a commitment to training through life from employers and employees, and to establish an infrastructure to deliver training for those in employment.
- To ensure that high standards of training are maintained across the whole range of training provision.

To meet these goals the commission plans a far-reaching overhaul of its structure to set up local training boards that would draw up and implement training plans for their regions.

The review of the commission's local organisation was prompted by the Government's election manifesto commitment to increase employers' influence over the commission's decision-making machinery.

However, the commission has recommended that the review of the role of its area manpower boards should extend well beyond the question of increasing employer representation. The response reflects the commission's determination to assert its own views on how to implement the Government's plan to reform training provision.

The commission's 55 area Manpower boards, which include employers, trade unionists and local authority representatives have mainly been reponsible for approving projects which require MSC funding. Sir James says that in future the boards will be responsible for planning a range of training programmes in the light of a community's needs, assisting in the delivery of the programmes and overseeing their quality. Each regional training board could have a separate budget.

Institutions back Scots financial centre scheme

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

LEADING EDINBURGH financial institutions are encouraging a scheme to build a complex in the centre of the city which would be the focus of the Scottish financial community. The scheme's promoters see it as the Scottish equivalent of the Lloyd's building or the Stock Exchange in London.

The proposed financial centre is one of eight projects shortlisted by Edinburgh District Council for a site in Castle Terrace next to the Usher Hall. The site, commonly known as "the hole in the ground," has been vacant for more than 20 years as argument has raged over whether to build an opera house on it. That idea has now been abandoned.

The financial centre would include a "court room" for ceremonial functions and meetings of self-regulatory authorities, displays of up-to-date financial data, late-night banking services and an international business library.

It would also have office space, restaurants and bars, an auditorium and a museum of the Scottish financial community.

The scheme, which might cost between £20m and £25m, is being promoted by Noble and Company, an Edinburgh issuing house, and Scottish and Metropolitan Property, the Glasgow property company.

Sir Iain Noble, chairman of Noble and Co, has been involved in founding a number of Scottish financial institutions including Noble Grossart, the merchant bank, and Adam and Co, the recently formed retail bank.

The centre would contain the headquarters of Scottish Financial Enterprise (SFE), an organisation created last year to represent the Scottish financial community. Professor Jack Shaw, executive director of SFE, has given his blessing to the scheme, and both Scotland's leading banks, the Royal Bank of Scotland and the Bank of Scotland, have said they support the idea in principle. A number of other financial institutions have expressed their support.

This and other projects for the Castle Terrace site would go some way to meeting the pressing need for extra office space faced by the Edinburgh financial community. In its planning brief the council envisages the site providing between 36,000 sq ft and 72,000 sq ft of office space.

A rival scheme for a Scottish financial centre on the site is being proposed by Carroll Northern. Other schemes being put forward include offices, hotels, theatres and exhibition areas.

Green belt plan passed

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

RUTLAND HALL has received planning permission from Hounslow Council to develop a business park and new housing on green belt land south of Heathrow Airport.

The matter has been passed to Mr Nicholas Ridley, Environment Secretary, for final decision.

In spite of the Government's insistence on the maintenance of the green belt, Rutland Hall, a joint venture of Rutland Group, a private property company, and RMC Group, the concrete producer, said it expected to win approval for the scheme.

The scheme, called Bedfont Lake, involves the provision of 1.35m sq ft of commercial space and housing on an additional seven acres. The company has agreed to turn part of the land into a public park and nature conservation area.

The scheme has been the subject of a planning inquiry in the context of a public examination of Hounslow's West Area Local Plan.

The planning inspector said the net loss of green belt land was 14 acres and that that was acceptable "when the gain of over 200 acres of restored land contributing to the borough's recreational needs is set against it."

The site is largely degraded agricultural land that has been damaged by gravel pits. Work is expected to commence next year.

Theatre plan rejected

BY OUR PROPERTY CORRESPONDENT

WANDSWORTH Council in London has backed away from plans for a new theatre in Battersea Park.

Entertainment Corporation had been invited by the council to make a formal proposal for a theatre. But Mr Edward Lister, chairman of the leisure and amenity services committee, said: "The planning and traffic effects which have now been drawn to our attention make it clear that the scheme is a non-runner."

Mr Bill Hammond, Entertainment Corporation's project co-ordinator, said: "The application is still alive. The situation is bizarre - we had been invited to propose a building in the park but we have been turned down because the building is in the park."

Entertainment Corporation said the council had turned down the scheme before examining traffic reports in detail. The company was now finding out whether councillors could be made accountable for their actions.

The idea of a permanent theatre in the park arose after the Bolshoi Ballet, in 1986, performed in a marquee there. The Battersea power station site has been suggested as an alternative.

VAT rule on out-of-court deals

BY RICHARD WATERS

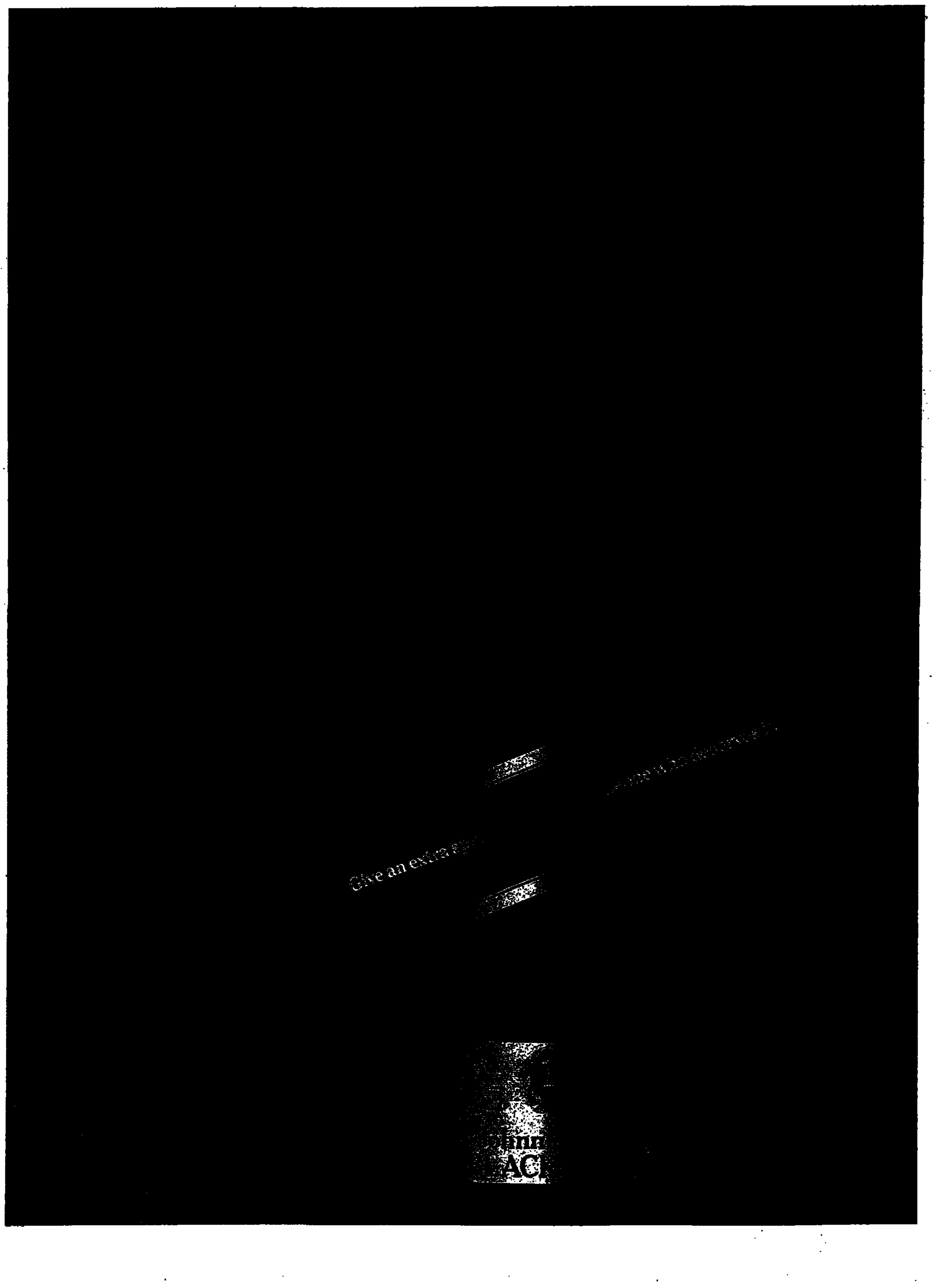
OUT-OF-COURT settlements will no longer be liable to value-added tax, Customs and Excise has announced.

This is believed to be the first of a series of rulings stemming from an extensive Excise review of the VAT treatment of compensation payments.

The ruling brings the VAT treatment of settlements made out of court into conformity with payments made under court orders. The differing VAT treatment of the two types of payment was described as absurd by one VAT expert.

The ruling does not affect out-of-court settlements involving individuals, since VAT is only chargeable on business-related matters.

Other compensation-related areas believed to be under review are cases where leases are terminated early, and so-called "reverse premium" payments. These involve payments by landlords to tenants to cover improvements to property.



Manufacturers confident growth will continue

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BRITAIN'S manufacturing industry appears confident that it can shrug off the impact of last month's stockmarket crash. It is reporting further gains in domestic and overseas order books and plans to step up investment spending.

The Confederation of British Industry's (the employers' group) latest monthly Industrial Trends survey, published today, suggests that in the immediate future at least, manufacturing output will continue to grow strongly.

A separate CBI review of investment intentions indicates that despite increased uncertainty over the outlook for demand following the recent turmoil in financial markets, the next 12 months should still see an upturn in capital spending.

There is also evidence of greatly increased pressures on industry's capacity and of a prospective pick-up in the pace of price rises over the next few months, however.

The investment survey, which covered 753 manufacturing companies, shows that 49 per cent plan to step up investment in plant and machinery against 20 per cent who expect to reduce outlays. The remainder expect to hold capital spending at the same levels of the last year.

This was the most optimistic picture of intentions for 10 years, the CBI said. But the main motivation for increased spending remains to increase efficiency rather than to expand capacity. Over 80 per cent of companies said that planned spending was aimed primarily at improved efficiency, despite signs that the recent strong rise in output has pushed industry much closer to its capacity limits.

Only 13 per cent of companies said their capacity was more than adequate to cope with expected demand over the next 12 months compared 20 per cent who said that it was less than adequate. When the same question was put in last month's quarterly trends survey, 25 per cent said capacity was more than adequate while only 15 per cent said it was less than adequate.

The latest trends survey, covering 1,307 companies, underlines the recent buoyancy of output and suggests that companies believe that they will be little affected by the stockmarket crash. Export order books appear to have improved, despite sterling's strong appreciation against the dollar, while a higher proportion of companies than in October expect their output to rise over the next four months.

Less encouragingly, the number of repondents reporting that they plan to raise prices has started to rise again after a steady decline during the summer and early autumn. Those pressures could be expected to increase if capacity tightens further.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, said the survey indicated that the fall in equity prices and the decline in the dollar's value need only have a limited adverse affect on industry. "Manufacturing output has been growing strongly throughout the year and is expected to continue to grow into 1988," he said.

That optimism is also reflected in the CBI's latest economic forecasts. Although the pace of expansion is expected to slow, the CBI is predicting that manufacturing output will rise 4.9 per cent in 1988 after a 5.6 per cent increase in 1987. Investment in manufacturing is forecast to rise 7 per cent next year, following an increase of only 2 per cent this year, while sterling's strength and lower interest rates should bring a significant fall in the inflation rate.

The organisation's economists believe that the deficit on the current account of the balance of payments will continue to widen in 1988, with a shortfall of £3.2bn in that year following the £1.6bn deficit projected for 1987, however.

A halving of the overall growth rate of the economy - from 4 to 2 per cent - also holds out little prospect of any further fall in the unemployment rate.

Alvey technology research criticised as waste of time

BY DAVID THOMAS

THE £350m Government-backed Alvey programme of information technology research is heavily criticised as a waste of time in a report from the London Business School.

The report, whose main findings are expected to be published before Christmas, is based on a two year monitoring of parts of the programme by staff at the business school with official backing.

It attacks the Alvey programme, whose first phase is drawing to a close, as wrongly focused and positively harmful to Britain's high tech industries.

Mr Peter Grindley, the report's author, said yesterday: "Because of the wrong focus, the information technology industry and particularly the software industry would have been better off without the Alvey programme."

News of the report, described in detail in today's Datalink computer magazine, has coincided with the appointment of a new director for the programme, Dr Timothy Walker, at present private secretary to Lord Young, Trade and Industry Secretary.

The final draft of Mr Grindley's report, which concentrates on software engineering, one of the key technologies supported by Alvey, argues that "Alvey has misdirected resources into an area of software which is unlikely to shape the industry."

By discouraging British companies from seeking research partnerships overseas, the programme has prodded them into "a game of nationalistic non-co-operation (which) the UK is very poorly placed to win."

The report also concludes that few commercial results have flowed from Alvey, while the benefits claimed for it are mainly intangible, such as greater co-operation between industry and academia.

Mr Grindley sent his draft report to the Industry Department, the Alvey directorate and the Treasury in August, but has not received a substantive reply or been asked to discuss it. However, Alvey officials said yesterday they had encouraged British companies to seek partners in Europe by participating in European-wide research programmes such as Esprit.

ITV groups consider separate pay deals

By John Gapper

TWO Independent Television companies are considering pulling out of a national pay and conditions agreement, despite fears of confrontation with broadcasting unions.

London Weekend Televison and Tyne Tees have told the 13 other companies which offer basic pay and conditions as laid down by the ITV Companies agreement with four staff unions, that they want to replace it with separate local deals.

ITV companies have been under increasing pressure from the Government to alter what it regards as restrictive practices operated by members of the ACTT (technicians), Beta (clerical and studio), EEPTU (electricians) and NUJ (journalists) unions.

Mr Alan Sapper, ACTT general secretary said he was "very surprised and angry" at the suggestion of a threat to the national agreement. He believed LWT and Tyne Tees might be "flying a kite" but if they were serious, the move would be strongly resisted.

ITV companies are worried that increasing competition in programme making and broadcasting, through improved access to the airwaves for independent producers and the advent of cable and satellite television, threatens profits and staff levels.

Mr Chris Stoddart, director of resources at Tyne Tees said the company had no immediate plan to pull out of the national agreement, but would be "looking positively" at the idea over the next 18 months.

Mr Roy van Gelder, personnel director of LWT described the national agreement as "hideous". He said he wanted to replace it with a comprehensive local deal, although such a policy had not yet been approved by LWT's board.

Mr Paddy Leech, Beta national industrial officer, said a weakening of the national agreement might be "a rather dangerous policy" for some ITV companies, which benefited from the strength it offered them in dealing with their unions.

The Prime Minister, Mrs Margaret Thatcher, told ITV managers at a seminar on broadcasting in September that she regarded working practices in ITV as one of the aspects of broadcasting most urgently in need of reform.

UK NEWS

Train fares to go up by more than inflation rate

BY ALICE RAWSTHORN

BRITISH RAIL will announce soon that train fares will be increased by more than the rate of inflation from January.

The BR board has not yet decided the exact fare increases for next year. Nevertheless, it is expected to opt for an average increase higher than the rate of inflation, which is 4.5 per cent, but lower than the 9.5 per cent recently announced by London Regional Transport.

This year the cost of travelling by rail rose by an average of 6 per cent, the lowest rise for four years. Next year's fare increase is expected to be slightly higher.

The most recent fare review, which was implemented early last January, froze the price of some of the seasonal "saver" tickets. But it increased fares on provincial services by 6 per cent and on Network Southeast, the principal commuter route, by 4.9 per cent. The cost of some InterCity tickets rose by up to 10 per cent.

In recent weeks concern has mounted that, in the next round of fare increases, the InterCity service will again bear the brunt of the price rises.

British Rail is now attempting to make InterCity profitable. The Government intends to withdraw its support for the service after the present financial year, which ends on March 31. It also plans to reduce its overall financial subsidies to BR from £794m this year to £555m, at present prices, within two years.

The National Union of Railwaymen has protested against the prospect of rail fares rising above the cost of living.

Such an increase would deter people from using the railways, said the union, while increases for commuters would involve "fleecing a captive market."

It maintains that fares are already too high and should be reduced in order to stimulate use of the railway network.

Private cash call for acid rain

BY MAURICE SAMUELSON

THE CENTRAL Electricity Generating Board has invited private industry to finance its £1bn programme to combat acid-rain pollution from its coal-fired power stations.

Mr John Baker, corporate managing director, announced the decision in a letter to companies with which it is discussing the first £600m worth of work on the power stations at Drax, North Yorkshire and Fiddler's Ferry, Merseyside.

Instead of simply paying to have flue gas desulphurisation (FGD) plants built, the CEGB could pay the contractors for cleaning its smoke. Another option would be for the joint ownership of the plants or for the owners to lease them to the CEGB.

The board's move has been made partly in deference to Treasury efforts to keep down public spending. It also seems to be designed to demonstrate its positive attitude towards privatisation, in spite of its fear of being broken into competing generating companies as the Government may be planning.

In his letter to more than 20 British and overseas companies, Mr Baker wrote that the board had "decided to explore the option of private-sector participation in the provision and financing of its flue gas desulphurisation programme."

Asking for a reply in four weeks, Mr Baker insisted that the idea was being considered "in parallel" with the normal tendering procedure. Companies that did not want to pursue the private-sector option "would not jeopardise their chances of success in the event of the board ultimately deciding to proceed on its normal basis."

The projects at Drax and Fiddler's Ferry involve the construction of big additions to the power stations. In the process chosen at Drax, the sulphur dioxide is neutralised with limestone, leaving behind huge amounts of gypsum to be disposed of, either commercially or as landfill.

The different process chosen for Fiddler's Ferry leaves behind sulphur products suitable for use in the chemical industry.

In his letter elaborating several scenarios for private participation in the plants, Mr Baker warned private contractors they would face serious penalties if the plant either reduced the stations' output beyond specified limits or caused them to be shut down.

The cost of total shutdown at Drax would be about £100,000 a day in summer and £200,000 a day in winter.

Wardley enters Italian market

BY CLIVE WOLMAN

WARDLEY INVESTMENT Services, an investment management firm, penetrated the Italian market at the weekend by signing a deal allowing it to manage an international unit trust of at least $200m (£112.4m) for Interbancaria Gestione.

Wardley is the UK-based investment management arm of the Hongkong and Shanghai Banking Corporation and has about 80 employees. Interbancaria Gestione is a Milan financial services company owned by a consortium led by Banca Nazionale del Lavoro (BNL).

The announcement said the deal would lead to closer ties between BNL and the Hongkong and Shanghai Bank, possibly through involvement in China. The two banks have only a correspondent banking relationship.

Since 1983 the Italian unit trust industry has grown dramatically. It manages assets of nearly $45bn. Interbancaria Gestione manages assets of $3bn.

However, until recently Italians were restricted to investing in their domestic market. The opening of foreign markets as part of a wider financial deregulation in Italy created chances for UK firms, which are recognised as being among the most experienced managers of cross-border portfolio investment.

Most of the overseas marketing efforts of UK firms so far has been directed at the US and Japan. Little headway has been made on the Continent.

The two other firms that have been most active in seeking to enter the Italian market are County Investment Management, the subsidiary of National Westminster bank, and Merrill Lynch, the US securities firm.

The Wardley-managed international mutual fund, which is expected to be launched in May or June, will hold about 70 per cent of its assets in stock markets outside Italy.

Most remaining assets will be held in domestic money market instruments. The fund will be sold by Interbancaria's direct sales force and through branches of institutions that own it.

Guidance for health authorities

By David Brindle

HEALTH AUTHORITIES should monitor their support service staff and "penalise" them in the same way as they would private contractors, according to a Government-funded report published today.

The report takes the form of a handbook of guidance for health authorities and contractors on good practice in management of hospital cleaning, catering and laundry contracts.

The lack of such guidance has been one main complaint of contractors since 1983, when competitive tendering for service provision began. They claim some health authorities have been making arbitrary deductions from contract fees for allegedly poor work.

Mr John Hall, general secretary of the Contract Cleaning and Maintenance Association, said he hoped to see health authorities use the handbook as their "bible" in monitoring contract performance.

"Authorities have made up their rules as they have gone along and many have called in consultants that know little about monitoring," Mr Hall said.

The handbook, part-funded but not adopted as policy by the Department of Health and Social Security, has been prepared by Grant Thornton, the chartered accountant, for the Nuffield Provincial Hospitals Trust.

Although only about 15 per cent of cleaning, catering and laundry contracts have gone to the private sector, the handbook says health authorities must be evenhanded and treat their own staff teams to the same checks.

Clearly, financial penalties cannot be imposed on an in-house team. But it is suggested that notional penalties should be calculated.

With contractors, it is emphasised that opportunity should be given to rectify shortcomings before deductions from fees are made. "The aim should be to provide an incentive to the contractor to perform well, not to make the contract unworkable."

Monitoring of the services, the handbook warns, can never be as precise as when dealing with a clearly-defined physical product. Of necessity, there is a reliance on qualititative measures and subjective judgments.

Health Services Management - Management and Monitoring of Contracts for Domestic, Catering and Laundry Services. Nuffield Provincial Hospitals Trust, 3 Prince Albert Road, London NW1 7SP. Price on application.

Churches oppose local government measure

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

EFFORTS TO persuade the Government to change its opposition to local authorities including social clauses in contracts will continue both inside and outside parliament this week.

The Local Government Bill, now before Parliament, would prevent local authorities from imposing most forms of contract compliance on their contractors. Many councils have used the contract compliance procedure in an attempt to achieve various social ends – for instance to ensure the employment of members of minorities.

A delegation from churches of many dominations, led by the Rt Rev Thomas Butler, Bishop of Willesden, will today tell Mr Michael Howard, Local Government Minister, that the bill will restrict the future ability of local authorities to promote equal opportunities.

The delegation will be joined by representatives of the Institute of Personnel Management, which concluded in a recent study that contract compliance was valuable in promoting fair selection and training policies and also made good economic sense.

In the Commons tomorrow, Labour members will make further attempts to convince the Government that the bill should allow councils to require contractors to use a specified proportion of local labour on contracts.

Ministers were originally sympathetic to including a local labour provision in the bill but Mr Nicholas Ridley, Environment Secretary, has since said that would conflict with European Commission rules.

The Association of London Authorities, which represents the Labour-controlled London boroughs, says that is not correct. The association will this week be publishing a legal opinion which it says shows that the Government's claim is based on a misunderstanding of EC legislation.

The bill does retain some provision for local authorities to refuse to give contracts to companies that discriminate on racial grounds. This has brought the Government into conflict with the Equal Opportunities Commission, which says it is seriously concerned that sex discrimination is not being treated in the same way.

Gold waits to regain the Savoy standard

By Kenneth Gooding, Mining Correspondent

GOLD is cheap, not only when measured against equities, but also compared with another long-standing City favourite - dinner at the Savoy Hotel.

According to Mr Julian Baring of stockbroker James Capel, the relationship between the value of the gold sovereign and the set dinner in the Savoy's River Room has remained remarkably constant since 1914.

At that time the meal cost the equivalent of 30p and a sovereign would feed 3.3 people. Today the sovereign is worth just under £62 and the River Room set dinner costs £27 (including service and value added tax). So the gold coin will feed only 2.2 people.

To restore its historical relationship the gold price would have to rise to $667 a troy ounce, compared with $464.5 on Friday, Mr Baring told an investment seminar in Gibraltar.

He made a spirited defence of gold, which has been critised in other quarters recently for apparently failing to live up to its reputation of being "a golden constant" and providing investors with the protection they expected during the recent turmoil in stock and money markets.

"Gold has not behaved badly. It has behaved extremely well relative to everything except gilts and cash," Mr Baring pointed out.

It was true that the price did not jump as it did during the autumn of 1986 when share values "suffered a correction." But gold had done exactly what many people expected of it.

"They bought gold, not because they thought it would go up, but because they thought it would not go down. Those people actually sold gold during the crash and they now have cash with which to pick up bargains."

Mr Baring pointed out that that was one factor among many which had resulted in gold having to withstand "massive selling pressure" in the past month, so far successfully.

He predicted: "The downward pressure is lessening already and at some stage soon the tide will turn. When it does gold shares will enjoy a spectacular rally."

And, presumably, the gold sovereign will once more provide the wherewithal for dinner for more than three at the Savoy.

GCSE 'will give pupils poorer results'

THE INTRODUCTION of the GCSE exam will mean that thousands of 16-year-olds will leave school with poorer qualifications than before, an exam expert claims today.

Mr Mike Cresswell, of the Associated Examining Board, says the system for marking the GCSE will mean many pupils will get lower grades than if they had taken the old exams, the O Level or CSE.

Under the old system, a pupil who sat three papers as part of one exam and got grades of A, B, and C would have ended up passing at grade B, said Mr Cresswell. Under the new system, the same pupil would get only a grade C. The new GCSEs require pupils to reach set levels of achievement in all parts of the exam.

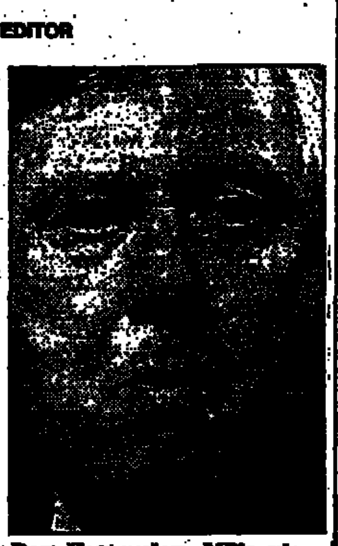
Hattersley hits at Livingstone's views on IRA

BY PETER RIDDELL, POLITICAL EDITOR

MR ROY HATTERSLEY, Labour's deputy leader, yesterday dismissed as "absolutely abhorrent" the views of fellow MP Mr Ken Livingstone about the IRA, which, he has said, would succeed in its political aim of forcing Britain to withdraw from Ireland.

His comments, on BBC Radio 4's The World This Weekend programme, mark an intensification of the Labour leadership's efforts to isolate Mr Livingstone, the MP for Brent East, after his repeated statements about Ireland, especially after the IRA's murder of 11 people in Enniskillen a fortnight ago.

Mr Hattersley blamed Mr Livingstone's remarks for having lost Labour last Thursday's local by-election, which determined the control of the borough of Wandsworth in south-east London.



Roy Hattersley: MP's views 'abhorrent'

He said Mr Livingstone's views were "very often" wrong and on the IRA were "absolutely abhorrent." But he thought it would be mistaken for Mr Livingstone to have the party whip removed, as has been urged by a few Labour backbenchers, since he did not count for very much in the party.

Mr Hattersley said Mr Livingstone attracted attention both because of the earlier impact of his huge public relations budget when he was leader of the Greater London Council and because he said the sort of thing that Tory newspapers wanted to print.

Mr Livingstone presents a dilemma for the Labour leadership since, although it seeks to minimise his significance, he did attract sufficient support from constituency parties to be elected to the party's national executive committee.

During his interview yesterday, Mr Hattersley said the opinion surveys presented to last Friday's joint meeting of the shadow Cabinet and national executive had shown that Labour Party values were more popular than expected.

He said a wide range of groups responded to the party's call for a better health service.

Owen seeking to avoid merger clash

BY OUR POLITICAL EDITOR

DR DAVID OWEN, former leader of the Social Democratic Party, said yesterday he would prefer to avoid a fight between his continuing independent SDP and a new merged Liberal/Social Democratic party.

He would not seek to block the formation of the new party but he would fight if it sought to challenge the SDP by putting up competing candidates.

He was speaking during an interview on ITV's Weekend World programme and he also set out what he described as a far more radical programme than the Government for increasing consumer choice in education, health and privatisation.

In face of warnings from Liberal leaders that there could be no electoral pact Dr Owen repeatedly emphasised that it was in neither party's interest to fight each other. "It would be crazy for us to fight. They would seek to destroy us." However, he added: "If they want a fight, they will have a fight."

It would be in the interests of SDP councillors and Liberal-Alliance councillors to work out an accommodation in the forthcoming local elections but he accepted that formal arrangements could not be worked out for two or three years.

Dr Owen and his allies in the Campaign for Social Democracy who oppose a merger with the Liberals are now claiming more than 10,000 supporters for a continuing SDP.

He said the new group might not put up candidates at all parliamentary by-elections, although it would consider doing so where the seat had been fought last June by an SDP candidate who had done well and who had stayed with the continuing SDP.

He denied that his group would seek to stop the merger by organising the necessary vote of one-third against that could block the constitutional changes at January's meeting of the party's Council for Social Democracy.

Dr Owen expressed support for many of the proposals in the Education Reform Bill, including the core curriculum, opting-out by schools and open enrolment, but said he objected to an ideological approach of reintroducing selection and grammar schools.

Mid Wales to lobby EC over move to cut aid

BY ANTHONY MORETON, WELSH CORRESPONDENT

MID WALES Development is to lobby the European Commission in Brussels in a final attempt to prevent its grant-aided status being removed.

The area's representatives fear that under the review of regional policy being carried out by the EC, its entitlement to assistance will be ended. The EC is expected to disclose its policy by the end of the year.

The fears were heightened 10 days ago when the Welsh Counties Committee reported, after a visit to Brussels, that the prospects for Mid Wales retaining its grant-aided status were receding.

Mid Wales has received more than £10m from the EC since 1975.

Mr Iain Skewis, chief executive of Mid Wales Development, the government-assisted body set up 10 years ago to regenerate the largely rural area, has admitted that the chances of success are slim.

The EC's review, which claimed that Wales was not among the most needy areas, has already been attacked by the Government for being based on out-of-date information, incorrectly extrapolated.

At stake is grant money from the regional development fund, which helps to finance a variety of infrastructure projects, from the social fund, which supports training programmes, and from the agriculture guidance fund, which offers aid to a range of farm projects.

Labour's Commons fury is just a whisper of the past

Ivor Owen on parliament's cruder approach to tumult

TRYING TO restore order in the House of Commons when it is in a state of uproar can be as difficult as halting the rise in the cost of living when rampant inflation has taken a hold.

On that view, the recent disorderly scenes amount to no more than what Chancellor Mr Nigel Lawson might describe as a "blip" on the retail price index.

They did not approach the scale of fury and tumult that marked Labour's assault on the Eden Government during the Suez crisis in 1956, which those best qualified to judge still rank as unparalleled in modern experience.

Then Labour leaders, not just one perceptive if obsessed Labour backbencher, had strong grounds for suspecting that the Prime Minister had lied to the House when insisting that while the Government had foreknowledge of the Israeli attack on Egypt it had not been a party to the collusion that was widely believed to have taken place - a belief strengthened by subsequent events.

The Parliamentary Labour Party of those days had in Mr Hugh Gaitskell a leader with less experience than Mr Neil Kinnock in knowing how to maximise the impact an Opposition can make against a government with a secure majority.

It did not needlessly reduce its strength by giving tacit encouragement to backbenchers prepared to indulge in blatant breaches of the rules of order incurring automatic suspension.

Unlike Mr Tam Dalyell, who has now twice been suspended for calling Mrs Margaret Thatcher a liar over the Westland affair, Mr Aneurin Bevan rejected such crudities and contented himself with calling on the entire Government to "stop lying" – a formula that was not held to be out of order.

Barely five months after a Prime Minister has been returned to office for a record third time with a majority of 100 is not the most propitious moment for an opposition to launch an all-out offensive or to engage in what might charitably be called a "dummy run".

To do so in the ill-prepared manner in which Labour MPs, with the apparent blessing of their whips, initiated the 30-hour sitting on the bill to extend Felixstowe harbour and with the opposition losing far more than it claimed to have gained from the exercise, again highlighted the paucity of parliamentary experience and tactical skills available to Mr Kinnock.

They might study the performance of the Conservative opposition led by Winston Churchill in what became known as "the Parliament of the long nights."

Churchill, like Gladstone before him, was by then "an old man in a hurry" anxious to return to Downing Street to form his only peacetime administration.

The Attlee Government had only a single-figure majority and Churchill was persuaded that a war of attrition, with a succession of late sittings as the main weapon, would force an early general election.

The offensive was launched in the spring of 1951 with open-ended debates on so-called "prayers" to annul statutory instruments. Such discussions are now normally limited to 90 minutes.

Churchill, then 76, was frequently in the front line. He was rebuked at one stage by Col Douglas Clifton Brown, the Speaker, for "gatecrashing" – trying to address the House when he had not been called.

Labour buckled under the strain and so did the Speaker, who was ordered to rest by his doctors as he reached the brink of nervous exhaustion.

When Col Clifton Brown returned to the chair some weeks later he apologised for having to go away by saying: "I felt just like a deserter when a battle was on."

It is still a matter of dispute just how far the harrying tactics persuaded Attlee to call a general election in October 1951.

This was more than three years before he was required to seek a new mandate and it resulted in him handing back the premiership to Churchill.

At the moment Mrs Thatcher clearly has a stronger hold on the most sought-after address in Westminster, but, like some of her predecessors, she may find that events, rather than those who face her across the Commons, constitute the most formidable oppostion.

Meanwhile, Mr Kinnock must console himself with the advice Mr Gaitskell received from Mr *Iain Macleod: "The first 10 years in opposition are always the worst."*

Private plans for inner cities

BY JOHN GAPPER

THE GOVERNMENT has a "growing conviction" that the private sector, rather than local authorities, must be its main ally in reviving inner cities, Mr Kenneth Clarke, Trade and Industry Minister, said yesterday.

Mr Clarke said the Government could not afford to waste its time on Labour-led local authorities "hell-bent on confrontation" and would instead seek a partnership with business.

He told the Conservative Trade Unionists' Conference in Pudsey, West Yorkshire, that government policy had moved on since the election and it now wanted industry and commerce to take a larger role in inner cities.

Mr Clarke said the private sector's response had been encouraging, and more than 200 private companies were already working on the government's 16 Inner City Task Forces.

A central contact point was now needed for businesses interested in inner cities. The contact point would then "plug" the companies into the government department or private-sector organisation that most needed them.

He said the Government could not expect free market economics to save the inner cities in itself because the prosperity of the City of London would not necessarily spill over into areas such as Peckham.

"What government must do, therefore, is to get stuck in, itself. It must make sure that its whole range of programmes is pulled together and zeroed in on areas most in need," he said.

Move to shift May Day break

BY JOHN GAPPER

THE GOVERNMENT would like to replace the May Day bank holiday with one in October - if possible on a patriotic date such as Winston Churchill's birthday. That was announced by Mr Patrick Nicholls, the junior Employment Minister, at the Conservative Trade Unionists'annual conference.

Mr Nicholls appealed to representatives for suggestions and said the Government wanted to spread bank holidays more evenly and give the tourist industry an autumn boost.

He told the conference in Pudsey, West Yorkshire, that there was also widespread irritation at the left-wing connotations of the May Day holiday, introduced in 1977 by a Labour government.

He said he had already considered dates such as the birthdays of the Queen, the Prince of Wales or Winston Churchill, but found that none of them was timed suitably as an "apolitical day for a new patriotic holiday."

Mr Nicholls said afterwards that Conservative bodies wanted "the red day out and a blue day in."

But he said there were practical difficulties in finding the right date in October to give the right spread to bank holidays.

May Day, which is a holiday in Britain on the first Monday after May 1, has been celebrated as an international labour movement holiday for the past 100 years.

Mr Stefan Terlezki, who lost his Cardiff West seat in the election, introduced in March a private member's bill to end the May Day holiday.

City regulators 'fail to stop fraud'

BY CLIVE WOLMAN

A FUNDAMENTAL weakness in the new City regulatory regime is its failure to tackle the widespread commodities and securities frauds being committed against foreigners by organised crime based in London, according Mr Barry Rider.

Mr Rider, of Jesus College, Cambridge, who is one of the leading securities-law specialists in the UK and head of the Commonwealth Secretariat's Commercial Crime Unit, was giving one of a series of public lectures on current legal problems at University College, London.

He said the 1986 Financial Services Act, scheduled to take full effect in April, continues the traditional restrictive approach of the Government to territorial jurisdiction and promoting international co-operation to catch fraudsters.

The act, Mr Rider said, would not allow for the prosecution, for example, of Mr Irving Kott, the convicted Canadian fraudster.

He is estimated to have made several hundred million pounds by using a force of aggressive telephone salesmen from offices in Amsterdam to sell near-worthless shares to UK and other non-Dutch investors.

Mr Kott's operations were shut down by a police raid 18 months ago but he would be able to follow the example of other fraudsters and money-laundering operations and set up in London without fear of criminal sanctions, Mr Rider said.

Mr Rider outlined other unpublicised failures of the Government to assist international co-operation against fraudsters.

It had refused to sign a mutual assistance treaty on criminal matters with the Swiss in 1981. It had also shown little interest in pursuing the activities outside the US of Mr Ivan Boesky, the US bid arbitrageur convicted of insider dealing.

The strongest measure against international fraud in the Financial Services Act, Mr Rider said, was the provision to force foreign banks with branches in Britain to disclose the identity of the ultimate beneficiaries behind foreign companies dealing in the market.

Mr Rider said, however, that an insider dealer or fraudster could conceal his identity by interposing another foreigner between himself and the bank.

The international dimensions of investor protection had been given too little attention throughout the seven-year period of investigation and consultation over a new system of investor protection which is culminating in implementation of the act.

He said the enforcement agencies - in particular the Serious Fraud Office and the Securities and Investments Board - lacked resources and sufficient high-calibre staff to overcome these structural difficulties.

Clive Wolman looks at the slow path to self-regulation

Investor protection is a tortuous affair

THE GRANTING of recognition by the Securities and Investments Board to the five self-regulating organisations that applied to it under the Financial Services Act is proving a tortuous and disputatious affair.

Over the last four months, since the self-regulating organisations (SROs) began making their applications and submitting their rule books for scrutiny by the SIB, there have been several flashpoints.

The most common cause has been the SIB's insistence that every section of every rule book must offer an equivalent standard of investor protection as the SIB's own rule book. Leading SRO officials have also complained about the poor quality of the SIB staff, particularly those below the top tier.

In September, mounting frustration, particularly within The Securities Association (TSA), led to pressure on the Government not to renew Sir Kenneth Berrill's appointment as SIB chairman when his first term of office expires in May. Some started tipping Mr Robert Alexander QC, recently appointed as chairman of the Takeover Panel, as his successor.

However, since the stock market crash five weeks ago, which has diverted attention to more pressing issues, the protests by City practitioners against the SIB's supposedly inflexible stance have died down. However, progress in redrafting and re-submitting SRO rule books to the SIB remains slow.

Kenneth Berrill: regulating the regulators

John Morgan: risk of further delays minimised.

The Investment Managers Regulatory Organisation (Imro) has just completed what it hopes will be its final draft rule book, which it will be submitting to the SIB tomorrow. Mr John Morgan, Imro chief executive, said the risk of further delays had been minimised by holding informal discussions with Sir Gordon Borrie's office and the SIB during the re-drafting. "There comes a time when the drafting has to stop and investor protection start," he said.

The Association of Futures Brokers and Dealers is also to submit what it hopes will be its final draft rulebook this week.

Fimbra, which covers insurance brokers and other small investment advisory firms, was the first SRO to submit its draft rulebook to the SIB in the early summer and has now resolved the bulk of its disputes with the SIB.

The two laggards are likely to be TSA and the Life Assurance and Unit Trust Regulatory Organisation (Lautro).

Lautro was the last SRO to submit the first draft of its rulebook. It submitted the draft to the SIB in September and it still has to make more amendments. Its rule book, particularly its proposals to resurrect an industry-wide commissions cartel, is also considered the most vulnerable to criticisms by Sir Gordon Borrie.

Although it will be able swiftly to process applications for authorisation from its members, mainly insurance companies, it cannot be assigned a later P-day (closing date for applications) than the other SROs. The rule books of all SROs must be approved first.

Only five weeks ago, TSA decided to re-draft its entire conduct-of-business rules, which cover more than 130 pages, to make them less legalistic and "more user-friendly". The responsibility for doing so has fallen on one TSA staff member, Mrs Glenda Davies, but she expects them to be ready for submission to the SIB early next month. The rules on some subjects however, for example on futures and options, will not be tackled until after P-day.

The SIB view has prevailed on what was one of the most contentious issues, the segregation of clients' money by TSA member firms, but the provisions on that issue will take effect only much later than April.

Another issue on which there has been a change of stance by TSA is the rules to back the Takeover Panel. Last winter, a suggestion was made that SROs should be empowered to take away authorisation from member firms which failed to comply with the Takeover Code.

Egoli Consolidated Mines Limited

(Registration No 68/15717/06)

Interim report for the six months ended 30 September 1987

Authorised share capital: R15 000 000 divided into 30 000 000 ordinary shares of 50 cents each

Johannesburg Mining and Finance Corporation Group

Directors: J M R Berardo* (Chairman), D M Grant-Hodge (Deputy chairman), P B Gain, W R Lawrie, A G Netto, J N Sharland.
Alternate directors: G M Fenske, H A McNeil, M van der Watt
*Portuguese

Balance sheets (abridged)

	Note	Unaudited 30 September 1987 R000	Unaudited 30 September 1986 R000	Audited 31 March 1987 R000
Capital employed				
Shareholders' funds		88 708	78 785	82 530
Cost of shares in holding company held by subsidiary		–	–	(20 206)
Outside shareholders' interest in subsidiaries		40 663	1 878	40 730
Long-term liabilities – interest bearing		4 336	–	4 801
		133 706	80 663	107 855
Employment of capital				
Mining assets		104 729	15 211	82 896
Investments – listed	1	32 955	32 374	30 610
market value		196 837	108 427	86 290
Investments – unlisted	2	9 444	27 977	10 129
valuation		9 444	42 676	91 642
Current assets		38 416	9 289	7 344
Current liabilities		(33 214)	(3 914)	(11 750)
Current interest bearing debt		(18 622)	(274)	(11 374)
		133 706	80 663	107 855
Number of shares in issue		26 000 000	26 000 000	26 000 000
Net asset value (per share)				
– calculated on shareholders' equity		R3,41	R3,03	R3,17
– calculated on shareholders' equity adjusted to reflect the excess value (as above) of the listed and unlisted investments over their book values		R8,71	R6,52	R6,46

	Unaudited Six months ended 30 September 1987 R000	Unaudited Six months ended 30 September 1986 R000	Audited Year ended 31 March 1987 R000
I. Income statements			
Turnover	44 248	9 350	30 728
Income	6 040	3 324	4 877
Surplus on disposal of investments/mining assets	3 791	–	–
Income before taxation	9 831	3 324	4 877
Taxation	364	156	269
Income after taxation	9 467	3 168	4 608
Attributable to outside shareholders	1 486	122	1 371
Consolidated income	7 981	3 046	3 237
Equity accounted income	412	394	5 140
Income attributable to shareholders	8 393	3 440	8 377
Transfer to non-distributable reserves	3 818	43	113
	4 575	3 397	8 264
Dividends	1 950	1 300	2 575
Retained income	2 625	2 097	5 689
II. Earnings per share (cents)			
Number of shares in issue	26 000 000	26 000 000	26 000 000
Earnings per share (cents) – on attributable income	32,3	13,2	32,2
III. Dividends per share (cents)	7,5	5,0	12,5
Note to the income statement			
Income is stated after taking account of the following items:			
Dividends received	–	1 650 000	206 000
Interest paid	483 665	130 353	437 000

Notes to the 30 September 1987 balance sheet

1. Listed investments

Number of shares	Percentage holding	Name of company
36 600 000	28,5	Consolidated Granite Corporation Limited (now Johannesburg Mining and Finance Corporation Limited)
24 650 000	40,6	Consolidated Resources and Exploration Limited
1 500 000	14,9	Laurasia Resources Limited – Canada
2 160 000	32,0	Simmer and Jack Mines Limited
3 917 250	25,5	Witwatersrand Nigel Limited

2. Unlisted investments

Number of shares	Percentage holding	Name of company
4 000 000	50	Energy Resources and Mining Corporation Limited
50	50	Ambermin Investments Limited

Comments

1. During the half-year under review Consolidated Granite Corporation Limited became a subsidiary of the company for a short period.
2. The group held the following listed subsidiaries as at 30 September 1987.

Name	No of shares held	% holding
Carrig Diamonds Limited	4 225 000	56,33
Waverley Gold Mines Limited	4 550 000	53,53
West Witwatersrand Gold Holdings Limited	54 000 000	60,00

3. Subsequent to 30 September 1987 the group repaid most of its interest bearing debt. This will result in substantial interest savings in the future.
4. An interim dividend of 7,5 cents (1986 – 5 cents) was paid on 31 October 1987 to all shareholders registered on 16 October 1987.

For and on behalf of the board
J M R Berardo
D M Grant-Hodge
23 November 1987

Registered office
31st Floor
Trust Bank Centre
58 Eloff Street (Corner Fox Street)
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(PO Box 1124
Johannesburg, 2000)

Transfer secretaries in South Africa
Corbank Registrars Limited
6th Floor
94 President Street
Johannesburg, 2001
(PO Box 1053
Johannesburg, 2000)

London branch register
Hill Samuel Registrars Limited
6 Greencoat Place
London SW1P IPL
England

A4071

BBC plans to introduce self-switching radio sets

BY RAYMOND SNODDY

THE BBC is planning to introduce an "intelligent" radio under its own name which will be able to seek out the strongest signal or automatically switch channels for local traffic news.

BBC engineers have already begun drawing up specifications for the radio, which will be designed to use the Radio Data System.

RDS adds an inaudible digital signal to normal transmissions to issue instructions to the specially designed radios.

Test RDS transmissions have already begun in England and will follow next year in Wales, Scotland and Northern Ireland.

Mr Johnny Beerling, controller of Radio One and the BBC executive responsible for co-ordinating the RDS programme, says the aim will be to produce a "smart" radio for less than £100.

When the specifications have been drawn up, it is likely that the BBC will put out to international tender an RDS radio that will carry the BBC name in the way that the BBC's microcomputer does.

Eight manufacturers displayed RDS radios, many of them prototypes, at an exhibition in Berlin in August.

Most were top-of-the-range radios for the expensive car market. Volvo has already taken delivery of some RDS sets from Japan, but manufacturers such as Philips are not expected to launch their first sets until next year.

Philips said: "We have a radio ready to introduce next year but the date will depend on when Dutch broadcasters introduce an RDS service."

Mr Beerling's aim is to ensure that RDS radios are produced at affordable prices to improve reception and ease of use as the number of radio channels increases.

The immediate target is the car radio market. On a motorway journey an RDS radio will automatically lock on to the correct frequency for a service, avoiding the need to retune car radios on long journeys.

The BBC is also sending data for an accurate time and date display which does not need resetting for British Summer Time.

Possibilities being considered include the ability to pre-set the recording of radio programmes in the same way as video recorders can be pre-set to record television programmes.

In the longer term, RDS could be used to provide a news headline service on visual displays or even transmit fact sheets for consumer programmes or teachers' notes straight to home computer printers.

RDS is an agreed European Broadcasting Union standard and 12 European countries have either announced their intention to launch a service or begun test transmissions. Sweden and Ireland have already implemented some RDS features.

Closer college links sought by chemical sector

By Peter Marsh

BRITAIN'S chemicals companies are to try to forge closer links with academic establishments.

Mr John Cox, director general of the Chemical Industries Association, which has initiated the drive, said the industry should do more to form connections with universities and polytechnics.

Ways of doing so included carrying out joint research or swapping ideas about promising technical trends.

The exact form of the contacts has still to be worked out, but could involve regular newsletters and other exchanges linking chemical companies with academic departments.

Mr Cox acknowledged that, although many large companies, such as ICI, had good links with universities, the relationship between the chemical industry and the academic sector was not particularly good.

That was largely because of fears that chemicals companies were polluting the environment. "We have a tremendous job to do in terms of communications," said Mr Cox.

The association also said the Government should encourage a rationalisation of academic chemistry departments, reducing their number and focusing more resources on those which remain.

NOTICE TO HOLDERS OF

BEATRICE FOODS OVERSEAS FINANCE N.V.

6¼% Convertible Subordinated Guaranteed Debentures Due 1991, Convertible on and after March 1, 1972 into Common Stock of, and Guaranteed on a Subordinated Basis as to Payment of Principal, Premium, if any, Interest and Sinking Fund by Beatrice Companies, Inc.

Pursuant to Section 1206 of the Indenture dated as of August 1, 1971, and amended as of April 16, 1986 and as of April 17, 1986 (the "Indenture"), governing the above-referenced series of debentures (the "Debentures"), notice is hereby given that an Assignment and Assumption Agreement dated as of September 30, 1987 (the "Agreement") was entered into by and between Beatrice Companies, Inc., a Delaware corporation (the "Company") and Beatrice Company, a Delaware corporation formerly named BCI Holdings Corporation (the "Parent"). In accordance with the Agreement, the Company assigned to Parent its entire right, title and interest in all of its corporate assets, and Parent assumed from the Company all of the Company's debts, liabilities and obligations, including those with respect to the Debentures and the Indenture. Parent expressly assumed the Company's obligations pursuant to the Indenture in a Supplemental Indenture dated as of September 30, 1987 among Beatrice Foods Overseas Finance N.V., Parent and Continental Illinois National Bank and Trust Company of Chicago.

Pursuant to Sections 1204 and 1206 of the Indenture, as further amended as of September 30, 1987, notice is hereby given that the Parent exercised its right under the terms of its 15.25% Junior Subordinated Exchange Debentures Due 2002 (the "Exchange Debentures") which Exchange Debentures were issued pursuant to an indenture dated as of July 1, 1986 between the Parent and The Connecticut National Bank, as Trustee, to redeem all outstanding Exchange Debentures on October 2, 1987 (the "Redemption Date") at 100% of the principal amount thereof plus accrued interest from August 1, 1987 to the Redemption Date. The Exchange Debentures were initially issued on August 1, 1986 in exchange for all of the outstanding shares of the Parent's Cumulative Exchangeable Preferred Stock ("Parent Preferred Stock"). The Parent Preferred Stock was initially issued pursuant to the terms of the merger (the "Merger") of BCI Merger Corporation, a Delaware corporation and an indirect subsidiary of Parent, with and into the Company. As of April 17, 1986, the effective time of the Merger, each share of common stock, without par value, of the Company (the "Shares") issued and outstanding immediately prior to the effectiveness of the Merger (other than (a) Shares which were issued and outstanding immediately prior to the effective time of the Merger and owned by Parent or any direct or indirect subsidiary of Parent, or which were held in the treasury of the Company or its subsidiaries and (b) Shares held by any holder who had perfected dissenter's rights under the Delaware General Corporation Law) was cancelled and extinguished and converted into the right to receive (i) $40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Parent Preferred Stock with a liquidation preference of $25 per share.

As a consequence of Parent's redemption of its Exchange Debentures, effective October 2, 1987, the holder of each $1,000 principal amount of Debentures has the right, during the period such Debentures are convertible under the terms of the Indenture, to convert such amount of Debentures into $2,185.80 cash, without any interest thereon.

Any questions regarding the conversion of Debentures should be directed to:

Ms. Gail J. Loveman
c/o Beatrice Company
Two North LaSalle Street, 26th Floor
Chicago, Illinois 60602

BEATRICE FOODS OVERSEAS FINANCE N.V.

CONTRACTS

£17m navigational system

GEC AVIONICS has won a £17m order for its azimuth position and elevation navigational system from the Royal Artillery. The system will be installed in the Army's Warrior observation post vehicles. It will have none of the moving parts used in conventional gyroscopes, and can ensure reliable information despite the harsh shock and vibration conditions encountered by tracked vehicles, claims the company.

★

Advanced business communications equipment worth £10m has been ordered by Telephone Rentals from **PLESSEY BUSINESS SYSTEMS**, Nottingham. The company will supply a large range of high technology products for sale throughout the UK. These include Britain's top-selling business system, the ISDX (Integrated Services Digital Exchange) and the ISDT (Integrated Services Digital Telephone) - a highly advanced product which can handle voice and data traffic simultaneously. Deliveries of the equipment will begin immediately and will continue until May of next year.

★

SULZER (UK) PUMPS, Leeds, is making use of a new technique to enhance the efficiency of 27 pumps under a contract for Yorkshire Water Authority worth nearly £400,000. The work involves removing the pumps one at a time from each station, refurbishing them and treating the internals with a process developed by Corrocoat of Leeds. Last year, in co-operation with Corrocoat, Sulzer undertook a testing programme, devised by Yorkshire Water Authority, to evaluate the effect of the coating, known as Fluiglide. The results indicated that internal friction was reduced and the efficiency of the installed pumps was increased by around 5 per cent. This adds to the 3 to 4 per cent improvement from refurbishment to achieve 88 per cent pump efficiency, compared with a typical 84 per cent for a new pump. As a result, Yorkshire Water Authority will achieve savings in energy costs, calculated at nearly 4.8 per cent. The pumps are in pumping stations at Elvington, Riccall, Brayton and Frickley on the Derwent Aqueduct scheme in Yorkshire. Each station will remain in operation while the work is undertaken. Tests made by the Water Research Centre show that the Fluiglide process has no effect upon the quality of water supplied to customers. The pumps are all Sulzer type BK50, of various stages, each having a typical throughput of about 7m gallons per day. Work is scheduled for completion by the end of May 1988.

★

MOLINS has won an order from Japan Tobacco Inc. to supply a hinge-lid cigarette packaging system. The order, valued at over £4m, follows an initial £6m order last September. This repeat order is for delivery in 1988. The system is capable of packaging cigarettes at rates in excess of 8,000 per minute and handling continuously the packaging process from single packets to cartons. Japan Tobacco Inc. is also taking delivery, for evaluation, of a Molins' Mark 10 cigarette making machine.

★

W H ALLEN, Bedford, part of NEI-A.P.E., has secured an order through its Sydney-based Australian associate, NEI Power Engineering, to supply five diesel engines to two power stations of the Solomon Islands Electricity Authority, in a contract worth £1.2m. Two nine-cylinder Allen type S37 engines will drive 2,800kW alternators in Lungga power station on the island of Guadalcanal, and three nine-cylinder Allen type S12 engines are required to drive 1,200kW alternators in Noro power station, New Georgia. Shipment is scheduled towards the end of this year and commissioning during April and May 1988. W H Allen has obtained orders for five further type S12 engines and engine driven alternator sets - for power stations on two other islands, Papua New Guinea and the Falklands; for a cable-laying vessel; and for a hospital in the UK worth around £1.2m in total.

★

APV has been awarded contracts amounting to £1.36m. APV Automation has been chosen by two European ice cream companies to upgrade their control systems. In Germany, Langnese Iglo at Heppenheim has placed an order for a replacement control system, worth £750,000. The first phase of the project is due for completion early in 1988. A replacement ice cream mix plant control system for another European company is valued at £760,000.

★

The UK's first total linen management contract within the NHS has been awarded to **INITIAL TEXTILE SERVICES**. The £8m, seven-year contract has been placed by the Merton and Sutton Health Authority and will involve the company in taking on and running the area's laundry at Queen Mary's Hospital in Carshalton. Initial will be providing all linen rental and laundry services required by the seven hospitals in the group. Within the package is ward and theatre linen, patients clothing and staff uniforms, with 65 per cent of the total estimated requirements being supplied on a textile rental basis. The remainder will be drawn from the health authority's stock. The service will include selection and purchasing of linen, laundering, quality control, wrapping to ensure freshness and that all aspects of hygiene are met, daily deliveries to the hospitals plus maintenance of their individual linen stores, distribution of fresh linen within the hospitals and collection and subsequent laundering of soiled linen. Initial hope to recruit many of the staff they will require from those already working within Queen Mary's with key management positions being filled by Initial's own management.

APPOINTMENTS

Three Dowty senior posts

Mr Frank Nugent has been appointed managing director of DOWTY BOULTON PAUL, and **Mr Peter J. Smith** joins as deputy managing director. Mr Nugent was deputy managing director (operations), and Mr Smith was director of special projects, Hymatic Engineering. **Mr Nigel W.R. Smith** has been appointed executive director - product support at DOWTY ROTOL. He was manager of the product support division.

★

Mr Chris Martin and **Mr George Piper** have been appointed directors of WAYMARK SIGNS. Mr Martin and Mr Piper previously worked for Movitex Signs as sales and marketing manager and direct sales manager respectively.

★

HERAEUS EQUIPMENT has appointed **Mr Trevor Dixon** its managing director. He was previously managing director of Beckman.

★

Following its acquisition earlier this year of Engineering Concessionaires (ECL) as part of the Peerless Group, NEWMAN TONKS GROUP has made the following senior management changes: **Mr Win Hockett** has been made managing director of both ECL and ECL Power Showers and **Mr Geoff Moore** assumes responsibility as sales director of both ECL and ECL Power Showers.

★

Following the merger of the Asea Group and BBC Brown Boveri Group, a new UK holding company, ASEA BROWN BOVERI LTD, will be formed to acquire the interests of Asea Holdings and its subsidiaries, British Brown Boveri and its subsidiaries, Asea Capacitors (UK) and Stal Levin. **Mr Eric Drewery** is appointed chief executive of the new company. He was formerly chief executive of Asea Holdings Ltd. **Mr Chris Pennington**, managing director of British Brown Boveri, is to join the board of the holding company.

★

EXCESS INSURANCE GROUP has appointed **Mr Ray Riseborough** to the board of Excess Insurance Company.

★

Mr Mike Marshall has become deputy chairman of ELLIS & EVERARD, and taken on the duties of group managing director. **Mr Peter Wood** remains deputy group managing director. **Mr Ken Hough** has resigned as group managing director following a disagreement on style of management.

★

Mr Philip Keevil has been appointed a director of S.G.WARBURG & CO., and a managing director S.G.Warburg & Co.,Inc., in New York from December 1. He will take charge of the group's mergers and acquisitions business in the US. He was co-head of Lazard Freres international department.

★

VALIN POLLEN has appointed **Mr John Williams** to the new post of new business development director from December 1.

★

Mr Stephen R. Lynn has been appointed financial director of CHELSEA ARTISANS. He remains a partner of Beecham & Co.

★

WHINNEY MACKAY-LEWIS has appointed **Mr Ian Gardner** as finance director. He joins from Brown, Knight & Truscott Holdings where he was group finance director and chairman of the publishing division. He takes over from **Mr Nigel Birch** who has been acting finance director on a part-time basis and remains on the board as a non-executive director.

★

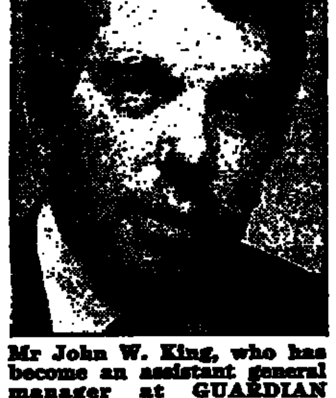
Mr R.H. Bird and **Mr T.G.H. Thomas** have been appointed to the board of F. BOLTON GROUP.

★

Mr Don Draper has joined PRICE WATERHOUSE as principal stamp duty consultant. He was policy division assistant secretary responsible for stamp duties at the Inland Revenue.

★

CROWN FINANACIAL MANAGEMENT has appointed **Mr Gareth Evans** as managing director. He replaces **Mr Mike Christophers**, who has resigned. An actuary, Mr Evans has been with Crown Life Insurance Co in Canada for 15 years, latterly as senior vice president, planning and development. He bacame a director of Crown Financial Management in 1986.



Mr John W. King, who has become an assistant general manager at GUARDIAN ROYAL EXCHANGE, with responsibility for corporate finance. He was investment manager.

★

Mr Des Andrews has been appointed assistant managing director of TARMAC's quarry products division. He has also become chairman of Tarmac Roadstone's eastern regional operations, and chairman of Tarmac South Africa. He was divisional director of finance and administration, and is succeeded by **Mr Peter Davenport**, who was assistant director of administration.

★

CATALYST COMMUNICATIONS has appointed **Mr Timothy Rosen** as executive chairman, and **Mr Leslie Kent** as amanging director.

★

Mr Harry Turner, managing director of Television South West, has joined the board of INDEPENDENT TELEVISION NEWS, where he will represent the five smallest ITV contractors. He succeeds **Mr Alex Mair**, former chief executive of Grampian Television, who is retiring.

★

Mr David Swaine has been appointed chairman of the CONFEDERATION OF BRITISH INDUSTRY's taxation committee. He is head of group taxation and corporate structure at Shell International Petroleum. Mr Swaine will succeed **Mr Alan Willingale** of BP at the end of the year.

★

COMMET - the Council of Mechanical and Metal Trade Associations - has elected **Mr Jack Gilbertson** as chairman; **Mr Eddie Addison** and **Mr Mike Leggatt** as vice chairman; and re-elected **Sir Trevor Holdsworth** as president and **Mr Tony Garner** as hon. treasurer.

★

Mr Anthony D. Bonnar, finance director, has been promoted to managing director of THERM-A-STOR. He succeeds the company's founder **Mr John J. Morris**, who remains chairman.

★

Mr E. Astrup and **Mr D.M. Cardale** have been appopinted directors of TR NATURAL RESOURCES INVESTMENT TRUST. **Mr C.J. Kirman** and **Lord Remnant** have resigned.

Head of Citicorp division

CITICORP INVESTMENT BANK has appointed **Mr John Robertson** as its head of the UK domestic investment bank. He succeeds **Mr Francesco Redi** who is leaving to pursue other business interests. Mr Robertson was regional treasurer with responsibility for the UK and northern Europe.

★

Mr David Slater, regional director in Oman, has been appointed managing director of WS ATKINS & PARTNERS (MIDLANDS) from April next year when **Mr Jim Tagg** retires.

★

Mr John Mills, marketing director, has been promoted to group chief executive of the KARRAN GROUP.

A Fed chairman just can't win

ANTHONY HARRIS

JET LAG is a problem when you first settle into Washington, but it is not the only one. It's a bit unnerving, for example, to discover that Wall Street seems to be at least twice as far from Washington as it is from London or Frankfurt; they ought to do something about the maps. And political perspectives are also strange. All Europeans use a kind of political telescope, which makes all the world's statesmen look much the same size. In Washington they seem to look through the other end. In short, as locals have always said, the Beltway (Washington's ring road) encloses a world of its own.

The perspective here is not nationalist; it is simply about power. In fact the most startlingly diminished figure, for a European visitor, is an American, Mr Paul Volcker. Mr Volcker has always been a taciturn man, so it is not surprising that hardly anything has been heard from him about money and the economy, the scene he used to dominate, since he stepped down three months ago. What is surprising is that during all the recent obsession with cutting the federal deficit, no one else seems to remember the longstanding Volcker themes - the financial necessity to avoid crowding US capital investment, and the danger of distorting the foreign exchange markets.

Negotiators have talked instead about the need to show the Republican President and Democratic Congress can still deliver decisions. They say they have proved it, though it is hard to know if the securities market will be reassured as long as they have no idea what is inside the package, or whether Congress will in fact confirm the agreement. Certainly Treasury Secretary James Baker realises the problem, and says that he will not even try to negotiate with his fellow finance ministers until the agreement is officially sealed.

None of this has stopped the politicians involved from appearing on television to talk smugly about how they have proved that the political process still works.

Meanwhile, Mr Volcker has not been forgotten. The demolition men are already getting to work. A long revisionist study of him has appeared in the New Yorker, which is still capable of setting the intellectual fashion when it wants to. This casts the recent Fed chairman as the great disrupter, who brought the whole US economy close to ruin in the cause of a monetarism in which he never fully believed, the man who worked against the policies of two presidents.

Now it may be fair to argue that Mr Volcker was overrated when he was in office, and made some bad mistakes, but this demolition job is surely grotesque. Volcker did not oversee the explosion of uncontrolled international lending in the 1970s; he inherited it. He had to contend not so much with President Reagan's policies as with the lack of them - the initial effort to balance the US budget through sheer wishful thinking, which is still at the top of the policy agenda. If Volcker is now to be cast as the scapegoat for all the structural problems America faces, some necessary lessons are going to be even harder to learn.

This anti-Volcker indictment is essentially a politican's indictment: his real crime was to be aloof. However, the charge as stated is monetarism, and this is particularly ironic at a time when the President has just appointed the last of the believing monetarists, Mr Beryl Sprinkel, to his Cabinet.

This choice seems to be worrying some of the analysts on Wall Street. They well understand that the growth of M1, which Mr Sprinkel likes to cite as the infallible indicator, is much affected by events in the foreign exchange market, and could be dangerously misleading. These warnings carry little weight in Washington, a stellar 200 miles away.

Wall Street's charge against Mr Volcker, if it felt inclined to mount a charge at all, would probably be that he took too long to learn to give proper weight to the exchange market, and Volcker would probably plead guilty, to judge from his few reported comments since retiring. It will be interesting to discover how long it takes these central questions, even if they are technical ones, to surface in the Washington debate.

It is in matters like this that it becomes really important to measure the psychological distance between Washington and New York. At the beginning of last week, the fact that nobody was talking about the crash any more seemed to convey the same warning; but this seems to reflect the mood on the Street itself. The markets have picked themselves up after a nasty fall, found that they are still in one piece, and are consequently feeling pretty smug.

They are also feeling very grateful to Mr Volcker's successor, Mr Alan Greenspan. The new Fed Chairman tackled the crisis like a veteran, and the financiers seem to have forgotten that he also helped to cause it by giving some very ill-timed comments on the trade trends. In New York, he is a hero.

Not in Washington, though. When he appeared before Congress last week, Mr Greenspan was treated with a good deal less awe than Mr Volcker used to command. His strong support for more financial deregulation was promptly brushed aside by leaders of the House of Representatives, which seems to be suspicious of bankers as a constitutional duty, and his independence from the Administration was questioned. (A Fed Chairman can't win: one of the main charges against Mr Volcker is that he was too independent.)

This is probably because his views on the US economy remained unfashionably optimistic, despite the crash. In Wall Street everyone knows Mr Greenspan was one of the best-regarded economic forecasting consultants until a few weeks ago, and no doubt has his own strong reasons for his views.

Mr Greenspan's policy views, as distinct from his feelings as a forecaster, remain enigmatic. It is to be hoped that the enigma is soon resolved, because he will surely be an influential figure. This is not because of his heroic status on the Street, but simply because all local observers seem to agree that the political process in the capital hardly works at all any more. The system may be able to deliver hesitant and mysterious decisions, but the Administration is no longer believed to be able to make policy. In Europe, we are used to an able and sometimes arrogant civil service, which ensures that policy goes on even at the times when politics have come to a halt. The policy vacuum which seems to open up here towards the end of every Administration is going to be a particularly trying problem in the next 12 months. Mr Volcker, who is still waiting to be offered a job which carries responsibilities to match the enormous salaries which are his for the asking, is filling in the gap by addressing the cause of Washington's policy problems. He is now head of a Commission on the question of the quality of the American public service. If he can get results, some future visitor will find Washington just a little less unlike home.

INTERVIEW

Optimist at the bank

Richard Lambert talks to Henry Grunfeld, veteran president of S.G.Warburg Group

HENRY GRUNFELD has seen it all before. A senior figure in the German steel industry in the late 1920s and early 1930s, he witnessed at first hand the collapse of the central European banking system and the devastating effects of deflationary policies around the world. One of the outstanding merchant bankers in London since the Second World War, he still works a full day at S.G.Warburg, the firm which he built with his late partner, Sir Siegmund Warburg.

Now at 83, in his first press interview, he remains optimistic. "I do not believe that we can have a repetition of what I went through in 1931 because the degree of co-operation between governments and central banks is totally different today. It just won't happen," he says firmly. This was Mr Grunfeld's position before the recent stock market crash - and it remains his position today.

There is now an established network of support between countries and institutions, he says, of a kind which simply did not exist before. Of course problems like Third World debt are a matter of great concern, but the fact that they have been recognised and brought out into the open by both banks and governments is a very helpful sign.

"Banks used not to work together in this way. An important German bank faced a run in 1931: I was on the advisory committee, and the board just did not understand what was happening to them. The then Reichsbank tried to persuade the other commercial banks to club together to lend support. They didn't. The next day, the bank had to close - and the others all followed shortly afterwards."

Why didn't they help out? "It was a matter of personal schadenfreude: they were delighted their rival was in trouble. Compare this with what happened when Continental Illinois ran into difficulties a few years ago. Things really have changed."

This is not to say that Mr Grunfeld rules out the possibility of further short-term upheavals, but rather that he can judge them through an unusually long perspective. "I have now been, for over 65 years, active in business, and I have seen such catastrophic upheavals, and still in the long term things did sort themselves out," he observes.

Mr Grunfeld's current role at Warburg is, in the words of Sir David Scholey, the chairman, to act as a constitutional monarch:that is to be consulted, to encourage, and to warn. Another senior director puts it rather more vividly. "He is a one-man bomb disposal squad. He still reads all the papers, and he has an uncanny knack of spotting - and dealing with - trouble."

The two founders of Warburg had much in common. They were both educated in the humanities and had similar intellectual interests. They were both bought up in traditional family firms in Germany - something which plays an important part in their story - and had important positions in their home country at an early age. And they were both forced to flee from the Nazis, only meeting each other for the first time after they had left Germany.

"But our temperaments were totally different, and so was our approach to business. We were in many respects complementary.

"It has been said that Siegmund Warburg was more of a romantic and I was more of a realist. That is too much of a generalisation. But he described me once as a 'hard taskmaster' and that perhaps meant that I was rather searching and critical in my judgment of propositions and also of personalities."

Or as Sir Siegmund once put it in one of his rare press interviews: "He is much more sceptical about people (than me) almost to the point of being very suspicious. If somebody is friendly and polite, I would often take the politeness as a reflection of kindness. But Grunfeld would wisely say the man in question might want something out of us."

Even today, Grunfeld is capable of putting the fear of God into junior employees who fail to live up to his exacting standards.

In business terms, the two were interchangeable. Both were actively engaged in the famous battle for British Aluminium in 1959, a deal which put Warburg on the map and changed the UK takeover business for ever. Elsewhere, Grunfeld was active in the newspaper industry, closely associated with Lord Thomson and Cecil King, and he played an important part in setting up Britain's commercial television companies. He remains the merchant bankers' merchant banker, regarded with something close to awe by some of the most senior people in the international capital markets.

The bank's style was - and to a considerable extent, still is - that of a discreet and very tightly run family business. "There never was any chain of command. Everyone could come direct to us. The internal communications system enabled every executive to keep himself informed of what was going on even if he was away," Grunfeld explains.

Not for Warburg the genteel City way of patching over disappointments. "If something went wrong, we would never try to say there was no point in crying over spilt milk. We would have a very thorough examination to find out what had really happened and how we could develop from this point."

That approach also applied to new business. "When we take out a proposition, we always consider what we would do if it doesn't go according to plan," he says. "The phrase: 'we will cross that bridge when we come to it' isn't heard here."

More than 50 years after coming to London, Grunfeld retains a strong German accent and a way of emphasising his words to make a point. And although the bank has changed enormously in scale, it still keeps, to a considerable extent, the original values of its two architects.

There is its famous tight-fistedness, for instance - or dignified austerity, as Grunfeld prefers to call it. There is its dislike of personality cults and of the ostentatious pursuit of money. As Grunfeld puts it: "The most overriding consideration was to do business in accordance with the highest standards. The money side would then follow. We would not accept propositions or clients with which we were not prepared to identify ourselves."

Then there is its occasionally eccentric approach to recruiting. As he often does, Grunfeld explains this with an anecdote: "Someone once said that hiring people is similar to buying a tie. You don't buy the tie when you need one. You buy the tie when you see one and like it. And you should do exactly the same with executives."

The bank has never been a trend follower. It led the way into the Euromarkets and largely avoided such trouble spots as tankers, property and Latin America. One current fad which Grunfeld regards with intense suspicion is the financing of leveraged buy-outs. "The disproportion of capital to indebtedness is frightening. The debt can only be dealt with either by the disposal of assets or by cash flow, which assumes that profits will continue not only to be the same but to grow. Now I have been long enough in business to know that this just isn't so."

But Warburg did not hold back when it came to the Big Bang. On the contrary, it led the charge with its acquisition of the broking firms of Rowe and Pitman and Mullens, and the jobber, Akroyd and Smithers. Having vastly increased its size, can it hope to retain its character?

Grunfeld says it can, provided it keeps the right leadership in place and maintains the sort of internal communications which make everyone feel part of the group rather than just a number in a system. Crucial to the plan's success, he adds, was the 18 months of detailed work which took place between the announcement of the acquisitions and the actual implementation of the strategy on Big Bang day.

Sir Siegmund was strongly opposed to expanding the size of the bank, and once suggested that 200 employees would be too many. What would his reaction be to the fact that there are now more than 2,000 in London alone?

"He was thinking in terms of the old banking system when he spoke of size," says Grunfeld. "In fact, he was very much against the split between merchant banks and brokers and he was much too progressive in his thinking to have objected to the transformation. To what extent he personally would have enjoyed it is another matter, but he would have seen that it was the right thing to do."

Grunfeld adds that he was totally committed to the expansion of the group from the beginning.

Although business conditions have changed enormously, he believes that traditional relationships remain important - relationships which go beyond day-to-day transactions and presuppose that the bank really understands the business of its customers.

"In good times, these relationships perhaps are not always valued so much. When times become difficult, the relationship becomes much more important. Take 1931. Take the early 1970s."

He admits that capital is more important to a merchant bank than it ever used to be, but argues that brains are still more important. "Capital follows brains, but brains don't necessarily follow capital."

Moreover, he says that comparisons of firms like Warburg with the big Japanese and American houses are usually misleading. Giants like Nomura or Merrill Lynch have to reserve a very large part of their capital to support their huge domestic businesses, a consideration which does not apply in the case of a large UK house.

Grunfeld believes that there is still a considerable shake-out to come among City firms. "If I have a worry, it is that there are too many people trying to do the same thing and not doing it very well.

He thinks that the London market is over-capitalised, especially in the gilt-edged sector, and is pleased that one or two leading players have already decided to cut their losses, since he thinks that this will make it easier for others to come to the same decision. "As you know, prestige is one of the most expensive things in the world."

Prestige is not something which he values: indeed, even more than Sir Siegmund used to, he seems to have gone out of his way to avoid the public eye over the past 50 years.

The turning point in his philosophy came in 1934, when for no reason he was arrested by the Nazis and held in prison for 54 hours. Many members of his family were later killed, and he was able to escape mainly because he happened to be the Spanish consul in that part of Germany. Although he talks about the experience with understandable hesitation, he says it permanently shaped his views of what was important in life.

Aspects of today's financial climate do worry him: the complexity of financial instruments which are widely traded by people who don't understand them properly; the hunt for market share; the fact that so few people have lived through a prolonged bear market; and - he re-emphasises the point - the growth of leveraged buy-outs.

But he does not worry about a repeat of the 1930s. "I just don't believe governments won't stick together and keep control. I think we have learnt our lesson," he says. "I look back over 65 years and conclude that things could have turned out very, very much worse. I retain my optimism in this respect. In the end, common sense will prevail."

Time to refine the blunt instrument of the libel laws

JUSTINIAN

THERE IS an audible expression of relief reverberating among national newspaper proprietors and editors at the jury's modest amount of libel damages awarded last Friday to the well known boxing promoter, Mr Mickey Duff, against the Sunday Times. The award of £10,000 reflects possibly the first tangible sign of a reverse trend in the soaring cost to newspapers of libel actions.

Only the previous week a former lieutenant in the Royal Navy received £260,000 in damages for an article in the Mail on Sunday which impugned his integrity over a ship's log book during the Falklands War. That was only half of what Mr Jeffrey Archer received back in July. In June another naval officer, libelled by a Greek journalist, was awarded £450,000. And even the recent cases of five figure awards have often been substantially in excess of £10,000

It was not as if the article in the Sunday Times on the face of it was less serious than other recent libels. In a sports gossip column in January 1983 the columnist had written that Mr Duff had "formed alliances with Harold Smith, who was funding promotions with money stolen from Wells Fargo Bank".

During the latter part of 1980 Mr Duff had admittedly had business relationships with Mr Smith, who was in fact later convicted of having stolen \$21.3m from Wells Fargo Bank. The Sunday Times quickly repudiated the complaint that it had meant to suggest that Mr Duff was aware of Mr Smith's use of stolen money for boxing promotions. To its credit, no doubt to some extent reflected in the jury's modest award, the Sunday Times had consistently reiterated its denial that the item in the gossip column bore any meaning to suggest Mr Duff's involvement in any way in Mr Smith's huge fraud. The jury rejected the Sunday Times refutation of any such defamatory meaning in the words.

The Sunday Times had alternatively pleaded that the most the words could mean were that Mr Duff in his dealings with Mr Smith had acted disreputably and incautiously, and that those meanings were true. Since the jury returned only a general verdict it is not possible to fathom out the reasoning behind the award.

The burning question is whether juries nowadays are piling on the agony of six figure awards in order to punish, to put it mildly, an errant press. It may be that the Sunday Times case is one where the jury saw no reason to punish the newspaper but merely to compensate Mr Duff for the damage done to his reputation. If so, there will only be a reverse trend away from the high costs of libel as and when newspapers heed the public's warning that unacceptably intrusive, inaccurate and inappropriate reporting will not be tolerated.

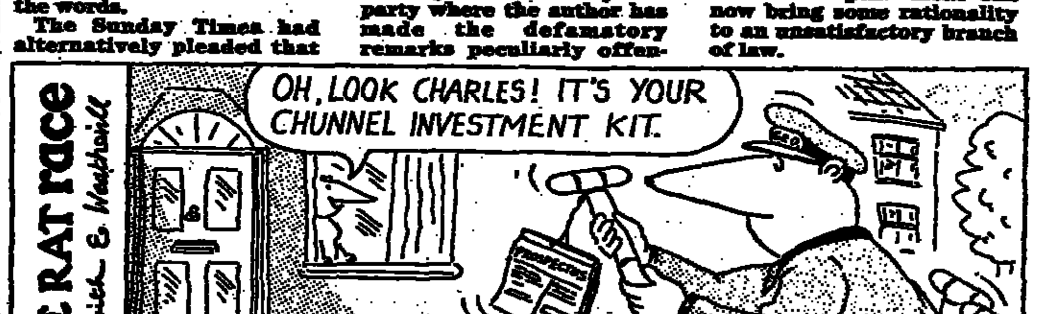
Libel damages traditionally fall into three categories. Compensatory damages represent in money terms (so far as it is possible to measure it) the defamed person's damage to his reputation. They include any quantifiable financial loss suffered as a result of the libel. But mostly a jury is asked to say what amount of money is commensurate with the damage to reputation.

Then there are aggravated damages which are in fact a species of compensatory damages. They seek to compensate for injury to the feelings of the injured party where the author has made the defamatory remarks peculiarly offensive. To have said of Mr Duff that he acted disreputably or incautiously, if untrue, would have carried a lesser award of damages than to have said of him that he knew or ought to have known that he was involving himself with a fraudster. For the latter, aggravated damages would have been appropriate.

The third category is punitive damages. Here the matter is unclear, and the law in practice parts company with legal principle. The basic proposition is that the place for punitive damages in the civil law is extremely limited. It has been authoritatively stated that in the commission of an actionable wrong - libel is an actionable wrong - "high handed, malicious insolent or arrogant conduct" would not form the basis of punitive damages.

While not excluding the possibility of an element of punitive damages the law is inclined to extirpate punitive damages from the civil law, if only because to punish a wrongdoer beyond the bounds of compensation to his victim would be to confuse the functions of the civil law and the criminal law. Damages in the high court should take full account of the victim's loss without imposing any further penalty on the wrongdoer

There is little doubt that juries, without any accountability, do take the opportunity to inflict punishment on newspapers in awards of damages. The law of libel is the instrument of permissible censorship by which an individual's dignity - often pseudo-dignity - is to be upheld. It is unfortunately a very blunt instrument. It metes out the measure of justice which is the most that an imperfect system can offer to imperfect man. But just as a damaged reputation cannot be readily assessed in monetary terms, so too the punishment for irresponsible conduct by a newspaper in the exercise of freedom of expression is not measurable. Only the courts and parliament can now bring some rationality to an unsatisfactory branch of law.



INTERNATIONAL COMPANIES & FINANCE

Andrew Fisher on Volkswagen's decision to abandon production at its US plant

How VW's move became a burden

IT IS a time most people have been all too happy to forget. When oil producing countries jacked up prices in the early 1970s, drivers' tempers quickly became frayed as they waited in long queues to fill up their cars with the precious commodity.

"Everybody thought the oil crisis was for ever," says Mr Carl Hahn, chairman of Volkswagen. Hence VW's decision, agonised over for three years, to build a car plant in the US. The idea was to satisfy the market for smaller family cars which did not guzzle fuel and which also offered all the solid virtues of German engineering.

That plant, finally decided on in 1976 when the company was headed by Mr Toni Schmuecker, began operations two years later. But last Friday, VW said it would stop producing cars there for good in 1988. With oil prices low again and competition stiffer, its operation at Westmoreland, Pennsylvania, had long been stuck deep in the red.

"It's almost a return to 'big is beautiful,'" reckons Mr Stephen Reitman, European motors analyst with Phillips & Drew, the London stockbroker, of the current state of the US market. "People's memories are very short about petrol queues and the time when there was a frenzy for more economic cars."

For VW and the 2,500 employees at its US factory, the writing had been on the wall for some time. Despite the weaker dollar, which should make assembly in the US a better option than exporting from Germany, Westmoreland had become a burden, operating at under half its capacity of 1,000 cars a day. So VW decided, says Mr Hahn, to respond to the changed market "by eliminating what is, in our group, marginal capacity at excessive cost due to low utilisation."

Ironically, a lower dollar was also one reason the US plant was built in the first place. However, adds Mr Hahn: "The change in what is selling well and what is not in the US year by year is substantial." Its cheap Fox, built in Brazil, is successful at the lower end of the market, while the higher priced, sporty Golf GTIs, cabriolets, and Sciroccos, as well as the larger Passats, are exported from Germany.

"The market segment has changed, the competitors have changed, and the fragmentation and segmentation of markets has changed," notes Mr Hahn. Not only have the Japanese and other non-US producers become a more powerful force in the market, but US companies have become more efficient. Today, Westmoreland accounts for under 30 per cent of VW's US sales of some 200,000 cars a year.

Despite its plan to abandon US production, VW will still benefit partly from the lower dollar. The US and Canadian-built components now installed in the Golfs and Jettas assembled at Westmoreland - such as air-conditioning units, axles, and aluminium cylinder heads - will go to Germany. So will the engines from Mexico, many of which already cross the Atlantic to VW's domestic plants.

As well as demonstrating the increasingly global operations of VW and other motor companies, the moves show how aggressively German manufacturers are pursuing cost cuts. Ford-Werke, part of Ford Motor of the US, has shed staff, while Opel (owned by General Motors) and VW have stopped hiring and are letting their workforces decline.

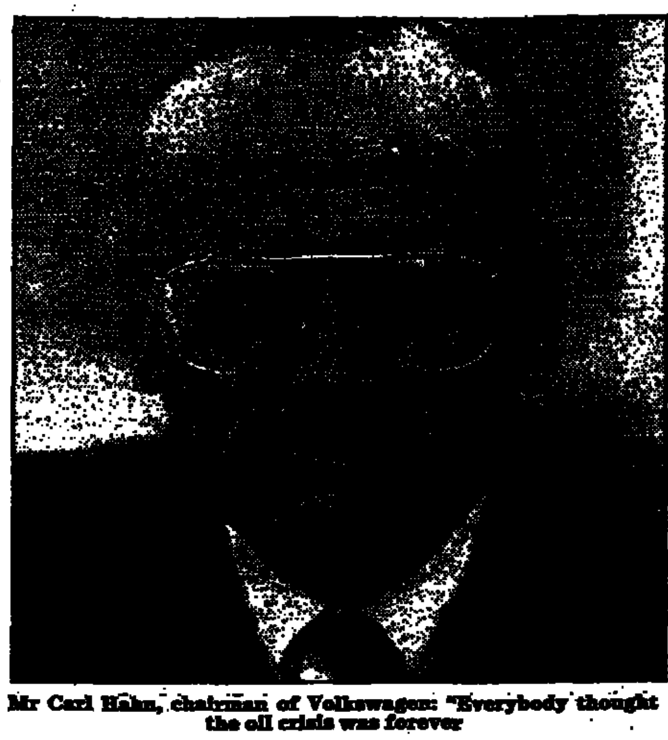
These volume producers are also seeking to buy more low or non-technology items outside Germany, where labour costs in the motor industry are the world's highest since the D-Mark's continuous rise. "We have several pockets where we can improve our cost situation," says Mr Horst Herke, chairman of Opel.

To remain competitive, German car makers have to invest heavily in the latest manufacturing equipment, as well as in product design and development. As Mr Daniel Goeudevert, chairman of Ford-Werke, points out, producers in France, Italy and the UK not only enjoy lower labour costs, but have recently made huge productivity strides.

Ford ended two years of heavy losses in 1986 with a net profit of DM587m ($348.8m). This year, says Mr Goeudevert, "we hope to beat this." At Opel, the hope is that 1987 will also see a profit of at least DM100m after three years of losses approaching DM1bn. VW's earnings of DM580m were dampened by the currency fraud discovered this year, as well as by losses in Brazil and Spain.

In an effort to sort out its problems in South America, VW has forged the Autolatina partnership with Ford Motor. In Spain, its purchase of SEAT has provided access to cheaper production facilities for small cars - Ford and Opel also build bottom-range models there - and to the surging, though still protected, Spanish domestic market.

Last year, VW sold Triumph-Adler, its office equipment subsidiary, to Olivetti to shed another loss-maker. VW's profits have been moving ahead in 1987, as the still buoyant European market has made up for weaker conditions in North and South America.



Mr Carl Hahn, chairman of Volkswagen: "Everybody thought the oil crisis was forever"

Yet none of the mass car producers in Germany is satisfied with current profit levels. "We need to earn more," says Mr Hahn. At Opel, Mr Herke comments: "I would say we still have an unfavourable cost situation, because we just don't make enough money. It's really not enough to sustain the business."

To wipe out the past three years of losses in the next three years - as it has said it hopes to do - Opel would need to earn some DM300m a year. "But we won't be able to achieve that yet; in 1987, that's a bit on the high side," Mr Herke adds. The main benefits of the DM4bn invested over the past three years will be felt in 1988 and 1989.

At Ford, where the turnround from loss to profit was DM800m in two years, improvements have come from bigger volume in a booming domestic market, efficiency advances through high investment and a lower labour force, and pressure on suppliers to cut prices. Like Opel, it also buys more parts from the UK.

"Ford-Werke cut its fixed costs (mostly wages and materials) by no less than DM500m in five years," says Mr Goeudevert. "This was almost a 20 per cent fixed cost improvement. The only problem is that everybody's moving at the same time. It's a never ending story."

The main threat to the volume producers comes from the Japanese, now enjoying around 15 per cent of the German market. Up-market manufacturers like Daimler-Benz and BMW have been less affected, though Japanese manufacturers are not expected to neglect the higher priced area, having turned their attention to it in the US.

Mr Goeudevert, who is concerned that Germany should remain price competitive not only in medium-sized but also in small cars, points out that even while its wage levels have risen, Japan has kept honing its efficiency. "We have all been surprised at how far the Japanese have been able to increase productivity from a high level. You can always find new ways."

Like the most of the rest of the industry, Mr Goeudevert opposes German union demands for a 35-hour week, which are likely to resurface after the present three-year wage deal. But in general, German unions have cooperated realistically in moves to enhance productivity and halt expansion of the workforce.

Because of their high quality, reliability, and design, German cars can command a price premium over other makes. "There is a lot of added value," says Mr Achim Diekmann, general manager of the German automobile industry association (VDA). "The technical substance and the gadgets give them an image that clearly justifies higher prices."

The trick, however, is to prevent costs from getting out of hand and pushing the price premium too high. In Mr Diekmann's view, this means shifting more production outside car factories to the components makers, which then account for a higher share of the final added value. This is also the way the industry has gone in Japan.

By putting more of the manufacturing burden on suppliers, car companies can concentrate more on technical innovation, design, and development. "In this way," adds Mr Diekmann, "we dematerialise growth. Building cars takes a lot of resources such as steel, other materials and manpower. Now, we can use brainpower to make products which need fewer resources and where servicing is easier. It calls for more brainwork by engineers. That's where the growth area in terms of added value lies."

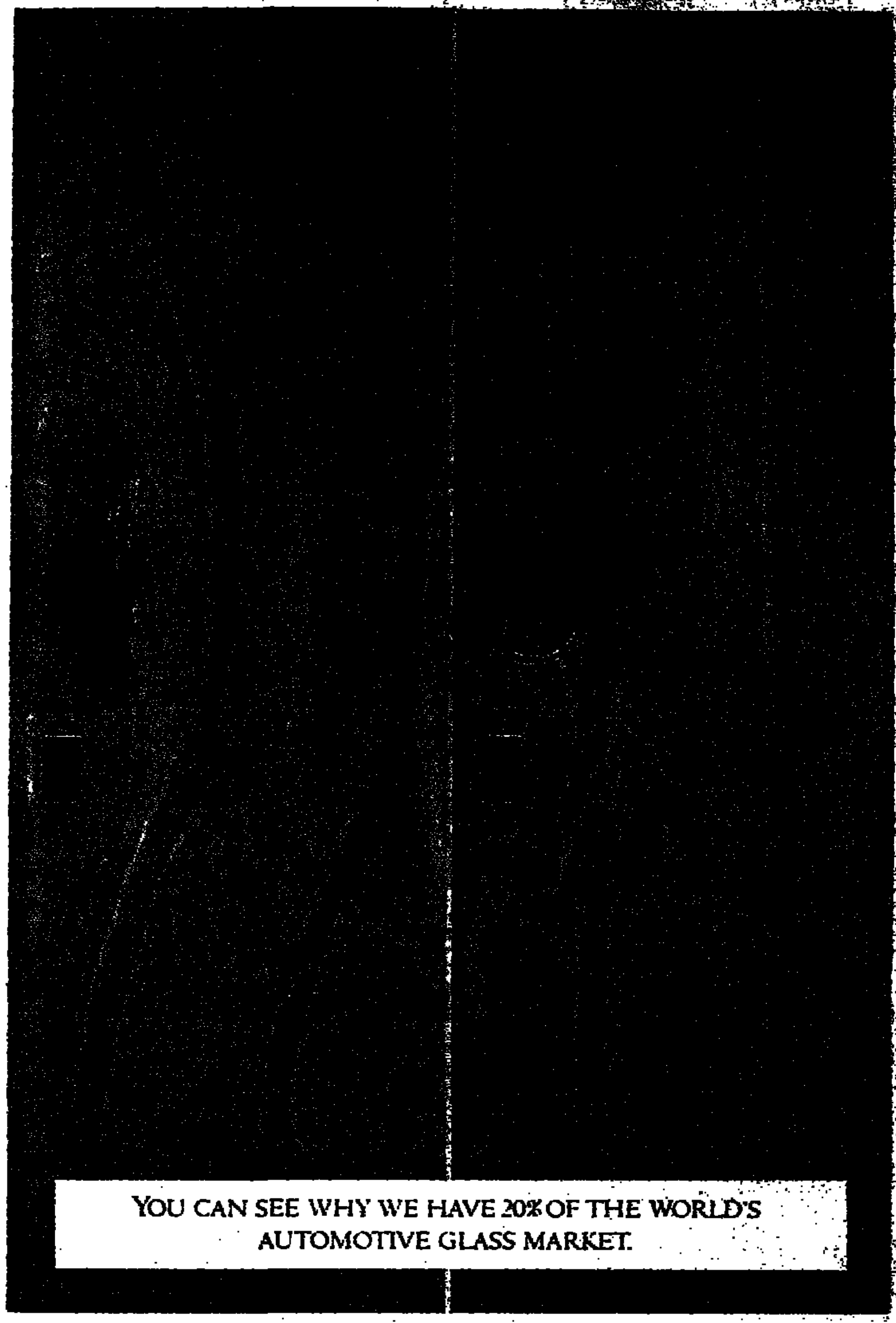
Whether at the upper or lower end of the market, German manufacturers are well aware that car markets cannot keep on growing. Since 1970, the average growth rate of the German industry in unit terms has been only 1 per cent a year. But the total value of the cars built has risen by a real (price-adjusted) 4 per cent annual average.

By going for quality rather than quantity, German manufacturers have fashioned a style and reputation which they hope will see them through any turbulence arising from the latest currency and stock market upheavals.

"The fact is," says Mr Herke, "people don't buy the cheapest model. They buy very well-equipped cars." Opel's Kadett costs from DM16,000 to DM26,000, depending on the variations. But the more options a car has, the more it costs to produce.

For VW, the lesson is clear. It makes more sense to export cheaper cars to the US from Brazil and more expensive cars, with a range of options, from Germany, where steady investment has led to a high degree of automation and flexibility at high volume. The US plant in VW's view, has run its course.

Pilkington's heated front windscreen. What does it mean to the man in the street?



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Why Edinburgh is a capital place to work

JUST six months ago Stewart Goldie-Morrison was broking bond futures and options for the US company Goldman Sachs in London. He is now doing the same thing for James Capel.

Nothing remarkable about that, except that Goldie-Morrison is now operating from Edinburgh. At the age of 29 he has made what he believes is a permanent move to Scotland. The recent opening of James Capel's broking office in Edinburgh presented him with what he says was "too good a chance to pass up."

The work is similar, and the working day - from 7.30am to about 6pm - is only marginally shorter. But because he and his wife and daughter are currently living only a mile or so from his office he is cutting out about three hours of commuting - he formerly travelled to London from near Huntingdon.

Life in Edinburgh involves far less stress than in London, and, as Goldie-Morrison says, "to have the wild open spaces of the Highlands only two hours away is very attractive."

Edinburgh is Britain's second financial centre, concentrating particularly on fund management and life assurance - it claimed, before the stock market crash, to have about £80bn under management, the bulk of it in Edinburgh. Employment in financial services is growing rapidly, though not as fast as in London. Yet although many of the senior jobs in fund management in Edinburgh are similar to positions in the south, London and Edinburgh are not interchangeable as places to work.

Though a few senior people left Edinburgh and Glasgow fund managers to go to London before Big Bang, Richard Fletcher, who runs Fletcher Jones, an employment search agency with offices in both Edinburgh and London, says there is now a net flow of senior executives into Scotland. Furthermore some people predict a greater flow of business to Scotland because of disillusion with the volatility of sentiment in the City of London and the expected rapid growth of personal pensions business for the life companies.

But, says Fletcher, "coming to Edinburgh tends to be a one-way move. Anyone moving from the south-east is likely to be trading down in the housing market, as houses here can cost less than one-third of their equivalent in the south-east. That factor can appeal to employers, who may feel they have got their employees for life. But it only appeals to a particular kind of employee who is happy to release some of the capital he has tied up in his house." On the other hand, anyone moving to Scotland can get a far better house for much less money.

Basic salaries, Fletcher points out, may be marginally lower than London, while some bonuses may now match London's. But the cost of living, including, of course, mortgage payments, is lower.

Ian Wittet, who runs the Edinburgh office of the recruitment consultants ASA International, says that the person who accepts a job in Edinburgh "tends to be someone who has tasted life in London long enough to know that he doesn't want to do it for ever. It's hard to headhunt someone to Edinburgh - to persuade him to uproot himself for money or prestige." Fletcher, however, says that he has persuaded executives to move to Edinburgh who had never previously thought of the idea.

The wild open spaces of the Highlands only two hours away are very attractive

Wittet says: "The principal attraction is the quality of life. It comes down to children, the wife and the amount of time you can spend with them. You can play golf without having to compete with 2,000 other people on a Saturday. There is less commuting, even if you live outside Edinburgh. And you waste less time: in London it just takes longer to do things, partly because of the time it takes to get about. Here, because Edinburgh is so compact, you get into a nine hour day work which would take you ten hours in London."

But, he acknowledges, not everyone wants to leave "the fast-moving buzz of London." Nor does the Scottish climate, with its lack of a decent summer, appeal to everyone.

The sheer size of London means that people there have a much better chance of finding a social niche than they do in Edinburgh, he thinks. By contrast, he says, English wives have been known to find Edinburgh society difficult to break into.

This is why, as both he and Fletcher confirm, many people moving from the south-east to Edinburgh are either Scots or have Scottish connections. "You're much more likely to find someone moving to Scotland from the south-east whose origins are in the north of England, than someone who's been born and bred in the southeast - though one or two do come."

Wittet points out that not only are certain categories of job not available here - there are no Edinburgh market makers, for example - but brash southerners are not wanted anyway. "The sort of person who has short-term views and is worried about making money for himself is not likely to be trusted with fund management here. Edinburgh's a thoughtful place."

Stewart Goldie-Morrison at James Capel is, as his name suggests, of Scots origin. "I've never lived up here, but both my parents and parents-in-law are Scots, and I was always coming up and down for holidays," he says.

Though he regards his move as permanent and intends to buy a house in the country outside Edinburgh, he does not consider that he has completely burnt his boats by moving north. This is because he has a well-paid job in that category where a future London employer might be prepared to help with housing finance.

Unlike Goldie-Morrison, Ross Lidstone has only slight Scottish family connections. He was brought up at Radlett in Hertfordshire. Earlier this year he joined Baillie Gifford, the long-established Edinburgh fund manager which occupies a Georgian house just off Charlotte Square.

Aged 31 and unmarried, he moved to Edinburgh after spending 18 months running the New York operations of the London Stock Exchange, which he had previously worked for in London. His main task is to market Baillie Gifford's investment management services in overseas markets, especially in the US.


Ross Lidstone: how would they react to an outsider from the south of England?

He decided to leave New York before he became so hooked on life there that he couldn't get away, and before his friends in Britain might have become dispersed. "I would have been happy to go to London or Edinburgh," he says. Though having already left London he was probably more prepared than most people to be open-minded about the idea of Scotland.

What attracted him to Edinburgh, apart from its attractions as a city, was the appeal of its status as a second financial centre, influential but detached from the market place, "rather as Boston is to New York," he says.

He is conscious of being rather different from many of the people at Baillie Gifford, most of whom joined the company straight from university and have stayed there ever since. "Before I came I asked how they would react to an outsider from the south. But in fact they've made me and another colleague from the south very welcome."

Though he keeps his flat in London as an investment, he says: "I'm here to stay. The work certainly isn't dull; Baillie Gifford has been doing incredibly well lately in winning new business."

And the annual subscription to the golf club he has joined at Dunbar costs less than a month's subscription at one in the Home Counties down south.

Multinationals

In search of global flexibility

Christopher Lorenz on the development of a fresh approach to cross-border management

KAO CORPORATION, a leading Japanese maker of detergents, cosmetics and disposable nappies, delights in giving its products such jovial names as "Skeleton Lunet" - for hairbrushes - and "Merries diapers". But it is far from happy about its long-standing attempts to compete with Europe's Unilever and America's Procter & Gamble around the world. Apart from some limited success in the small developing markets of South-East Asia, they have borne little fruit.

Much of the blame lies with Kao's excessively centralised structure, and its resulting lack of responsiveness to local needs around the world - not merely in terms of product branding, but also formulation and marketing. So the company has recently taken a number of steps to strike a better internal balance between central power and local management initiative, in order to get the best of both worlds.

Unilever's problem used to be the reverse: excessive local independence. Then, in the 1960s and 1970s, the Anglo-Dutch packaged goods giant moved strongly towards co-ordination and centralisation, applying a standard organisational approach to most of its diverse businesses and national subsidiaries. One much-publicised exception was in the US, where its Lever Brothers subsidiary was left on a dangerously long leash until the early 1980s.

Only in the past few years has Unilever taken a much more differentiated tack, with the degree of organisational centralisation or decentralisation varying widely between its businesses, regions and countries.

What Kao, Unilever and other leading companies all over the globe are now doing, according to two business professors, Christopher Bartlett and Sumatra Ghoshal, is shifting their business units and national subsidiaries from either dependence or independence towards "interdependence". From their very different starting points, they are all moving towards a common and highly ambitious goal: the simultaneous achievement of global efficiency, responsiveness to national differences, and rapid "organisational learning" (the transfer of skills and know-how from one part of the organisation to another).

Up to now most large companies have concentrated on developing and managing only one of these capabilities, claim Bartlett and Ghoshal, who teach at the Harvard Business School and Insead, the European business school near Paris, respectively.

But intense international competition and rapid change in all aspects of the business environment mean that more and more industries and businesses are now being driven by the need for all three capabilities at once, they report. Only if companies can handle this triple challenge by becoming flexibly "transnational" can they become winners in the increasingly international business world, argue Bartlett and Ghoshal. Otherwise their best hope is to be "mere survivors."

Writing in the latest issue of Sloan Management Review about new ways of "managing across borders"*, Bartlett and Ghoshal report on how nine of the world's largest multinationals are trying to dispense with simplistically standard structures, and build what the academics call real "organisational capability."

In addition to Kao, Unilever and Procter & Gamble, the companies they have studied are: Ericsson, the Swedish telecommunications group; Philips, the Dutch electronics empire; ITT, the US conglomerate; General Electric of the US; Matsushita, the Japanese consumer electronics giant; and NEC, its compatriot in computers and telecoms.

Bartlett and Ghoshal's researches, which will be published next year as a book by the Harvard Business School Press, are complementary to the work of C.K. Prahalad and Yves Doz on "The Multinational Mission," discussed on this page last Friday. Together, the four researchers are charting a daunting new organisational agenda for major companies.

Take Kao. At the beginning of this decade, for instance, the company was even having trouble penetrating the shampoo market in Thailand, because its local managers were positioning, packaging and pricing their products in exactly the same way as in Japan.

By 1982 Kao's top management had started trying to increase the company's responsiveness to international market differences by creating regional headquarters in Asia, America and Europe. Bartlett and Ghoshal report that "it also undertook a personnel development programme to upgrade the skills and organisational status of its overseas groups, and to internationalise the perspectives of managers at headquarters."

But the plan misfired, say the two academics. Instead of giving local executives some real independence, functional managers at Kao's Tokyo headquarters - "the dominant group in this traditionally centralised company" - saw the localisation drive as a signal for themselves to compensate for what they saw as the inadequacies of local management. So they became more directly involved in overseas operations. Regional and country managers found it hard to gain much influence over product development, or even market strategies, and "the company failed to develop the national responsiveness it was seeking," say Bartlett and Ghoshal.

Last year Kao took a further step in the supposed direction of both market responsiveness and "interdependence" between Tokyo and the regions, by establishing research and development units in West Berlin, Barcelona and Los Angeles. Unilever, with its much greater experience of handling international operations, and its extra knowledge of cultural differences and the ideal operating conditions in different types of business, has come very much closer in the last decade to the flexible "transnational" advocated by Bartlett and Ghoshal.

It has moved in sequence from being organised in a standardised way to being much more "differentiated", they report - differentiating first by product, then by function, and finally by geography.

For instance, the degree of central co-ordination now varies considerably between basic research, product development, manufacturing, marketing and sales.

The management of diverse geographic operations has also been put on a varied footing. All the units used to operate under similar planning and control systems, and report through the same channels. "Increasingly, however, managers recognise that such symmetrical treatment can constrain strategic capabilites," report the two academics, pointing to Unilever's gradual realisation that Europe's highly competitive markets and closely linked economies mean that operating companies in that region require more co-ordination and control than those in, say, Latin America.

Little by little over a number of years, Unilever's top management increased the role of "product-co-ordination groups" in Europe, finally giving them direct line responsibility for all operating companies in their businesses. Elsewhere, however, the historic line management role of the national units has been maintained, and product co-ordinators have acted only as advisors.

Most recently, differentiation within Europe by national units has proceeded even further. Operations in "key countries" such as France, Germany and Britain, are allowed to retain considerably more autonomy than those in "receiver countries" such as Denmark, the Netherlands, Sweden and Switzerland. "While the company's overall commitment to decentralisation is maintained," comment the academics, "'receiver countries' have gradually become more dependent on the centre for direction and support."

Despite the managerial challenges posed by this complex organisational approach - which also includes variations between businesses such as detergents, packaged foods, and chemicals - Bartlett and Ghoshal say Unilever is far from unique. They cite Philips, P and G, Matsushita and Ericsson as companies that are building the necessary organisational ambiguity, and in a gradual fashion "rather than in the sudden, adversarial environment often associated with either/or choices."

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London Sinfonietta/Elizabeth Hall

Max Loppert

This is the 20th birthday season of Britain's most important orchestra, and the celebratory schedule is suitably lively and well-stocked. Simon Rattle's three November concerts with the Sinfonietta are providing the season's first fanfares; Friday's (sponsored by IBM), first of the three, was a salute to the household gods of 20th century music - Debussy, Stravinsky, Schoenberg, and Messiaen. It was an example of the three-tier, two-interval concert programmes pioneered by the Sinfonietta:generous and rewarding if you're in the right, receptive mood, overlavish and exhausting if you're not.

This was, I felt, one of the latter type. Concentrating hard on Schoenberg's *Pierrot lunaire* - which occupied the middle tier - is the necessary compliment to pay the work in a performance as limpid, colourful, and well-paced as that produced by the Sinfonietta quintet under Rattle. By the time Debussy's Sonata for flute, viola, and harp and Messiaen's *Trois Petites Liturgies* were reached, later on in a long evening, mental energies were somewhat drained, and it was only because of the superlative airiness of the Messiaen reading - sung with perfect freshness by the female Sinfonietta Voices, sustained on a single current of inspiration by players and conductor - that they were finally replenished. The suggestion that birthday parties need to be planned and executed more tautly than this is no doubt rather Carabosse-like, but it needs to be made.

The protagonist of *Pierrot* was Elise Ross, in a "staging conceived by Sylvano Bussotti",who also designed the costume. Miss Ross made an artful impression as a big-eyed Van Dongen woman, hair slicked down and mooning about with delicate melancholy in a single spotlight (the hall lights were here kept down);she managed to find a convincingly lyrical vocal midpoint between speech and song. But the cutting edge of the words was constantly blunted by the singer's soft-grained delivery - as words are the work's most significant expressive articulation, the main point was very nearly lost.

★ The shortage of first-rate French singers on the world's stages and concert platforms is so distressing that when a genuine sample of the breed is discovered, there is a danger that he or she will be seriously over-rated - mainly out of sheer gratitude.

Francois Le Roux, who made his London debut with the Nash Ensemble at the Wigmore Hall, on Saturday, is a young French lyric baritone. in a grand, recently moribund tradition. His Messager, Debussy, Monteverdi, Ravel, and Gluck opera performances have already been celebrated on this page from various European centres (including Edinburgh and Glyndebourne); hopes were high for his first London showing as a singer of *melodies.*

Honesty compels me to report that they were somewhat disappointed. Mr Le Roux's voice, darker, less dapper, more direct-striking than Souzay's (the obvious comparisons have already been quite frequently made), is a wonderfully appealing instrument, the idiomatic verbal address is a delight to hear, and he himself cuts an elegant platform figure.

But in Faure's *L'Horizon chimerique* and Poulenc's *Le Travail du peintre* with Ian Brown as pianist, he allowed himself to over-sing, hardly varying his dynamics between loud,louder, and louder still, in a manner that suggested either debut nerves or a simple misjudgment of the Wigmore acoustics (or both). In Poulenc's *Le Bal masque* - a Nash party-piece brilliantly played by the small ensemble and conducted with excellently understated wit by Lionel Friend - the balance between voice, instruments, and auditorium was much more comfortably achieved, and Mr Le Roux's singing here was pure pleasure.

Altogether, however, one would like the baritone to do some hard re-thinking before his full-length Wigmore song recital next February. It would be too bad if such an eagerly awaited occasion were to be similarly marred.

Mahler's Third/Barbican Hall

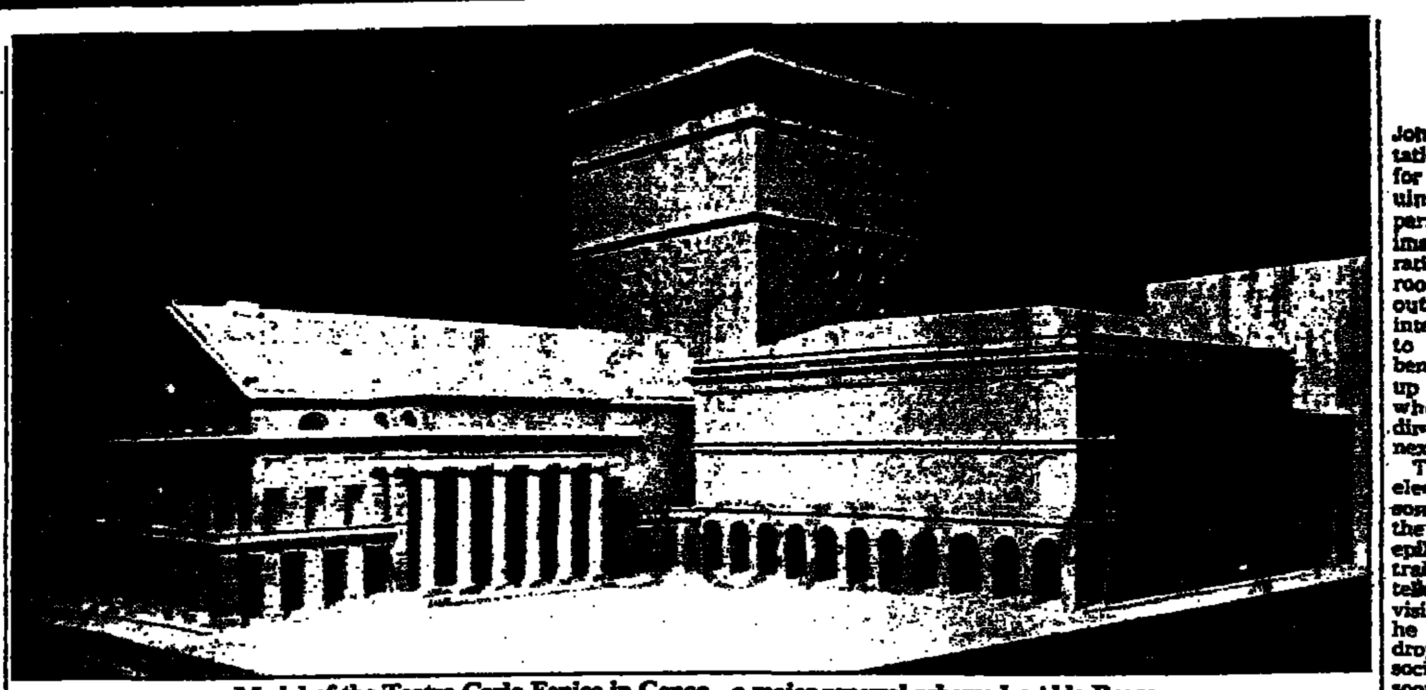
David Murray

The London Symphony is losing its music director Claudio Abbado to Vienna, and with Klaus Tennstedt also *hors de combat* local Mahlerians have been facing a dusty prospect. Last Thursday, however, Michael Tilson Thomas – the LSO's new principal conductor-elect – offered Mahler's Third Symphony in a style that raised much more optimistic hopes for the future (he will take up his permanent post at the beginning of next season): not only for Mahlerians, but for everyone who wishes the LSO would perform at its best more dependably and more often.

This is of course a seasoned Mahler orchestra, not least through its work with Abbado. Tilson Thomas could trade upon all that experience, and it must have saved some rehearsal time – the score of the Third is studded with tricky compulsory nuances, as well as stringent demands upon players' skills. Nevertheless the performance was much more than sound and meticulously prepared: passage upon passage of superb playing, and well-nigh flawless orchestral balance throughout, indicated that conductor and band have achieved a very happy *rapport.* The heavy brass, in particular, were magnificently secure, as subtle in the right places as they were brilliantly clamorous in others.

Terrific, unanimous string-attack was a continuous strength too. Tilson Thomas sustained the huge, slow Finale – the strings' hour of glory – quite seamlessly, a result which even exemplary fidelity to Mahler's detailed markings doesn't guarantee. Before it the Symphony female chorus and the Southend Boys' Choir had shone in the 'Angels' movement, and the Dutch contralto Jard Van Nes made a potent impression with her Nietzsche lyric: fervent but absolutely taut declamation, penetrating and characterful timbre. She is surely destined for an enviable career.

Making a critical effort to find some reservations, I should say that the LSO still seems temperamentally averse to developing a real pianissimo (which would have been an expressive boon in certain places);and that Tilson Thomas's bright objectivity doesn't reach all the way into the exuberant mysteries of the Third. The opening mega-march gleamed, but *nicely* – no raucous, dangerous edge; the Menuetto and the Scherzo were just a notch too brisk to let their quirkiest points register fully. But this is no time to look a gift horse in the mouth: we ought rather to hope that it will run and run.



Model of the Teatro Carlo Fenice in Genoa - a major renewal scheme by Aldo Rosso

Architecture/Colin Amery

An evocative Italian in York

Even without the presence of the Italian President, an exhibition of the work of the leading Italian architect Aldo Rossi is a significant event in England: and for a nation that is so centred on the capital it is salutory that it opens out of London, in the city of York. It will also be seen at the Royal Institute of British Architects in London in February, 1988.

For this major event, which opened last week, Aldo Rossi has designed a special building (of a temporary nature) to stand outside the City Art Gallery, York, as both a signal of the exhibition and a tribute to the medieval towers and battlements of that city. Called by Rossi the "Tower of York," it is a series of ascending octagons that climb to a height of some 12 metres, diminishing in size as they rise.

It is a clever and provocative introduction to the exhibition, embodying in its form both the sense of some ancient defensive machine wheeled into the centre of York and a reference to the angular towers of this Gothic city.

Aldo Rossi has had a more stirring career than most architects. He was born in Milan in 1931, and while training at Milan Polytechnic visited the Soviet Union. In the 1970s he was actually banned for a while from teaching in Italy because of his "politico-cultural" activities. This did not stop the spread of his teachings and ideas, however; he taught in Switzerland for three years, until 1973, when he was appointed to the chair of Architectural Composition at the University of Venice.

The York exhibition opens with Rossi's graphic work which shows, in embryo form, several of his ideas. He has a sense of childlike pleasure in objects and forms, and much of his design turns buildings and domestic objects into rather beautiful toys; monuments assume the guise of models that can be moved around: a can of Coca-Cola stands beside the Theatre of the World in a sketch which makes you wonder about the scale of things. His etchings and vigorous freehand sketches are some of the best things in the show; they would appeal anyone with an interest in architecture or not.

The other thing that shouts with joy in the York Gallery is the stong and cheerful colour of so much of his work.

It was in 1966 that Rossi's book, *L'Architettura della Citta,* started architects, writers and others thinking about the importance of memory in the city. He felt particularly strongly that monuments do concentrate this memory. In a typically provocative way he praised the Stalinist monuments as models to follow: this was part of his war on the inflamed conscience of the Modern Movement, for the idea that a Soviet sub-classical pile embodied the national memory was wildly controversial to modern architects in the 1960s.

Rossi achieved his victory by making sure that his own visions were as extreme - his schemes showed endless vistas of de Chirico-like streets, and a city architecture that was "stripped" of all classical references. There is something inhuman about these polemical schemes, and some of the same qualities can be seen in later work. At York the perspectives of the Fontivegge project for Perugia show a high colonnade that would, in reality, be about as welcoming to walk along as Albert Speer's grand Berlin avenues.

This exhibition provides a splendid chance to witness Rossi's growth and development, with the display clearly mounted and marvellous, cheerfully coloured models. One of his more recent works is the first you see - the Teatro Carlo Felice in Genoa. Rossi won the competition for the revneWal of this neo-classical opera house in 1984. It is now being built, and has a very powerful presence with its great fly-tower massively ribbed and crowned by a giant cornice. James Stirlingclearly looks at Rossi, because they are both, simultaneously, developing a strong, monumental and evocative quality in their work.

The beautiful wooden model of the Teatro Carlo Felice is reminiscent of the Palladio exhibition, and it is not an exaggeration to say that Rossi, in his model-making as well as his architecture, must be seen as a serious response to Palladio.

It is fascinating to see how Rossi's work evokes the quality and rightness of certain elements of the past. In the museum he has designed for Marburg, for example, he was quite right to consider it entirely appropriate to build a new building with a typical, very steeply pitched roof. In the new buildings for the University in Miami, his sense of colour, form and the lines of palm trees has given the campus a waterfront focus it has long needed and are entirley suitable. For a new hotel and leisure facility, as they are now called, Rossi has designed a completely brilliant scheme which, on paper at least, is a synthesis of Japanese architectural traditions.

The colourful presentation of this scheme is one of the best things in the exhibition; I loved the red edifice with the green bands and the searing turquoise sky, and the model is amusing, too, with its wooden walls and marbled windows.

Even the model of the famous Rossi cemetery at Modena is highly coloured, and looks like a maze-like private game. Architects can be at their most god-like when designing cemeteries - their one chance to have clients who will not interfere.

There are not many objects designed by Rossi in this show. The glass case with its green roof and clock in the centre of the pediment contains coffee pots and a watch, which has exactly that toy-like quality that also informs much of his furniture. There is a wardrobe designed to look like one of those Italian beach cabins, striped with a little pitched roof; his furniture is not as mad as the work of some Italian designers, like Memphis, but it certainly does see furniture as the area for playing enjoyable games: for the architecture he reserves a much more serious stylistic approach.

The result in completed buildings (I recently wrote here about some in Berlin) is a kind of primitive classicism that suits Western cities, showing both vision and discretion.

It is hard for Rossi not to make social comment, and his drawing at York of "The Vertical City" significantly shows modern skyscrapers drawn on a background of Stock Market prices - possibly even taken from this newspaper.

The Aldo Rossi Exhibition continues at York City Art Gallery until January 3.

Tom Waits-Roger Waters

Antony Thorncroft

Waits and Waters, not another pair of kooky northern comediennes who think each other a scream,but two cult musicians playing in London last weekend. Fortunately they were booked into different venues, Tom Waits at the Hammersmith Odeon and Roger Waters at Wembley Arena, for they have nothing in common apart from a weakness to view the world from behind dark glasses, and terminal eccentricity.

The American Waits is the more easily certifiable. For years he had a lovable louche image: he was the bar-room beatnik to be tripped over by the cleaner in the morning, laying among the empty bottles and empty dreams. Then came success. He has reacted by becoming a licensed oddball.

He cavorts in front of his excellent band like Spiderman impersonating Olivier's Richard III, badly, and sings like a Lee Marvin LP played at 45 rpm.

Unfortunately his gutter gurgling voice is now so gravelly as to be largely incomprehensible. This is a sad loss because Waits' cool, laconic, spaced-out observations, both in his songs and in his verbals, are witty. Helping himself to a beer from the on-stage fridge he leads the audience into "Innocent when you dream", an affecting German drinking song in which he does the drinking while you do the singing.

There is so much happening on stage–Waits changes his persona from a Born Again Christian to Frank Sinatra in seconds and the band leaps from French accordion accompaniments to sax-led jazz rock–that you desperately search for landfalls. Look, there's a Jacques Brel bit there, and a snatch of Randy Newman there. When Waits calms down and plays his oldies at the piano it becomes much more relaxed. But then he is not there to soothe. He is still the outrageous character causing a disturbance in the corner, obviously drunk yet sympathetic and knowing.

No jokes from Roger Waters. He was the difficult creative force behind Pink Floyd and is currently touring with a concept show to promote a concept album. The omens were not good. The album , *Radio KAOS,* is the usual stuff, all about a human vegetable saving the world, but the show was an eye-opener.For a start the music is mainly old Floyd, "Money", "Brick in the Wall", etc.,but played by a much funkier band. Inspired by Andy Fairweather-Low on guitar, the Bleeding Heart Band makes the old Floyd sound like Muzak, and the device of having an LA DJ on stage in a studio mock-up of KAOS speeded the flow of some very funky music.

Of course the political preaching is a problem. You sigh to hear yet another pop millionaire pontificating about world poverty and the arms race, and if I never see another back projection of starving children, missiles,and industrial wasteland on the Wembley screen again I won't fret, but the brilliance of the show easily out-weighed Water's paranoia.

The Idiot / Swan, Worcester

B.A.Young

John Ginman's compelling adaptation of Dostoevsky's novel runs for almost three hours of continuing action, moving from one part to another of Ian MacNeil's imaginative all-in set as the narrative shifts. A versatile sitting-room, overlooked by minatory outside walls, serves for any interior scene; on an extension to the Swan's small stage, a bench, a desk, a chair summons up a train, a garden or a study, where characters may walk directly from one point to the next.

The mood is set by a piercing electronic scream, followed by some instructive extracts from the book on the nature of the epileptic fit. We move to the train, where Prince Myshkin tells Rogozhin about the medical visit to Switzerland from which he is returning, and Rogozhin drops some hints about current society in Petersburg. Myshkin is soon deep in this after his visit to the Yepanchins; the Colonel offers him a job and a room, Mrs Lepanchin and Aglaya try out his conversation (which drives them into fits of laughter); he sees a portrait of Nastasya Filipovna, and falls into instant love with it, love that graduates from imagination to reality when he meets her.

The plot could be briefly summarised as dealing with Nastasya's troubles with men and with Myshkin's simple efforts to put things right, but that does not summarise the play. We have four major characters, Myshkin, Rogozhin, Nastasya and Aglaya Yepanchina, and Mr Ginman has extracted enough from Dostoevsky to show them in depth. Sometimes he gives them a line or two of Dostoevsky to speak; sometimes, remembering *Nicholas Nickleby* perhaps, he gives them a stage direction. "I left the room," says Myshkin, doing it.

Steve Swinscoe's Myshkin is small and deliberately unimpressive; in his quiet moments he is admirable. In his louder moments he shouts (as do the rest of the company when anything passionate has to be said). There is perhaps not enough about him to justify his being labelled as a "holy fool" I remember Innokenty Smoktunovsky, when the Gorky Theatre brought Tovstonogov's version to London, acting Myshkin's difficulty in uttering anything he felt important; Mr Swinscoe, quiet or yelling, is positive.

Sam James's Rogozhin is pretty rough to have made his way even into the outskirts of Petersburg society - a hint of a Cockney voice, a hat kept on in smart drawing-rooms; but it is well done in its chosen field. Catherine Russell is ideally cast as Nastasya Filipovna. She is a tall, commanding actress, with a firm chin:it is easy to see young men falling for her, and easy to see her taking advantage of them, as she does of Ganya, Radomsky and Rogozhin as well as the naive Myshkin. I very much liked Karen Henthorne's Aglaya too, a girl who would have liked to be adventurous until it came to the moment of decision.

Her mother is admirably played by Vilma Hollingbery, with maturity on one hand and simplicity on the other, and her father the General is well done by Maxwell Hutcheon (much changed from his other part, Lebedev, Rogozhin's hanger-on). This is a resident company; even young Kolya is played, alternately, by two boys from the Youth Theatre company, and the one I saw, Darryl Childs, was splendid.

Dostoevsky in a small regional company like this is a daring project, and John Ginman, who is artistic director as well as adaptor and director, deserves the highest praise. On Saturday, when I went, there was hardly an empty seat in the house.

Under the Web/ Soho Poly

Michael Coveney

Julia Kearsley's new play at the Soho Poly anatomises the pressing reality of absent men in the lives of a mother and daughter in Bolton. Rose(Anita Carey) has returned home after a broken marriage and is less interested in ironing clothes than in pumping iron. She does her weight-training in the lounge, to the understandable consternation of old Miriam (Gabrielle Hamilton).

Both women are haunted by the missing brother and son, Bob, who fled the nest 15 years ago and has just dropped dead with a heart attack while climbing mountains. Rose, abetted by *her best friend, the district nurse* Dorothy (Maggie McCarthy), wants to bury Bob without Mum knowing what's up or who's under.

In the most ludicrous of several ludicrous twists, the chap they bury turns out not to be Bob at all. Having gone to Bob's funeral in Act One, Rose pops out to his wedding in Act Two. Mum twitters on about Bob, and Dad, and comes home from a Home wearing an old bridal veil like Miss Havisham.She says Dad used to find her too vaginally small for sex and then pulls down her knickers to go to the toilet. I began to wonder what on earth I was doing with my life.

The whole thing is extremely trying, confirmation that Miss Kearsley has not really developed since her refreshing 1979 comedy about a retarded adolescent, *Wednesday.* The best writing belongs to Miss Carey,a muscular (as we can see at close quarters),emotional actress with a gift for making Rose's confused and confusing spiritual condition a matter of theatrical fact.

But the play has more holes than an Emmenthal cheese. Why is Bob's identity not established? Where is the corpse stored before burial? Who *was* buried? Why does Rose's prattish little son not appear until the last moments? And key scenes are palpably missing. What has happened to the cooled friendship between *Rose and Dorothy? How was Miriam* levered into the Home? If Bob is so apologetically reformed, why does he not drop by with a slice of wedding cake?

A lot of the trouble stems from the clumsy construction. The text *feels* like a television or film script, cutaway scenes in the church or the Home (where Miriam should obviously be discovered at one stage) left bleedingly exposed between awkward scene breaks.

Brian Stirner's production does nothing to disguise these faults, and the play hobbles disjointedly on to the predictable acceptance by Rose of her filial and maternal responsibilities. With Mum gone garrulously doolally in her walking frame, it will be years before Rose hears the last of the Zimmer whine.

Saleroom/Antony Thorncroft

Pre-Raphaelites on offer

Christie's is rightly proud of its auction of 19th century pictures on Friday. This was a market pushed by Sotheby's but its great rival is holding the better sale this week: indeed Christie's describes it as its finest ever.

There are three British paintings of great interest, two by Pre-Raphaelites. The Rossetti, of "Proserpine," was the centrepiece of the artist L.S.Lowry's collection of Pre-Raphaelites. It has been on loan at the Manchester City Art Gallery which will presumably be keen to buy it. The Gallery will need to find around £600,000 to do so.

There are only three surviving versions of this famous portrait, which was modelled on William Morris's wife, Jane, with whom Rossetti was infatuated. The others are in the Tate and in the Birmingham City Art Gallery. In 1888 it sold at Christie's for £745; in 1964 it passed through the same auction rooms for a modest £5,250.

From the same Brotherhood comes Burne-Jones's "The prince entering the briar wood" from his celebrated Briar Rose series. This is a "lost" painting and estimated at over £500,000. In 1926, when such works were completely out of fashion, it sold at Christie's for 58 guineas. The third work has also surfaced only recently. It is "Sybil" by Lord Leighton which was found in a gentleman's lavatory in Connecticut. At its last appearance at Christie's in 1897 it made 630 guineas; this time bids approaching £500,000 are anticipated.

Sotheby's best response, tomorrow, is another Leighton. "Pan" was owned by the artist G.F.Watts and was much liked by Browning. It comes for sale from the US and has a £120,000 top estimate.

After the buffeting that 18th century British pictures received last week in the saleroom there must be some nail-biting about the prospects for these sales.

On Friday Sotheby's is offering a 36-page autograph manuscript by Liszt which was previously unknown. It has been dated to around 1832 when Liszt was in Paris. It carries an estimate of around £50,000. Also in the musical manuscripts sale is an archive of Edward German, including his autographed score of the first version of "Merrie England". Along with letters, diaries and the manuscripts of songs, it is expected to sell for around £60,000.

Today Christies is selling contemporary ceramics, with works by all the big names--Bernard Leach,Lucie Rie, Hans Coper and Elizabeth Fritsch. There is a particularly strong range of work by Coper, spreading in price from less than £1,000 to up to £30,000 for a monumental bottle vase. For the first time a work by Carol McNicoll is offered at auction. A stoneware bowl made up of four interlocking slabs is estimated at about £600.

Arts guide

November 20-26

LONDON

English Chamber Orchestra conducted by Jeffrey Tate with Nigel Kennedy, violin, and Robert Tear, tenor. Mendelssohn, Britten and Mozart. Barbican Hall (Mon). (638 8891).

Daniel Adni, piano. Mendelssohn and Debussy. Wigmore Hall (Tue) (935 2141).

London Symphony Orchestra conducted by Bramwell Tovey, piano, with Jack Brymer, clarinet, and Maurice Murphy, trumpet. Beethoven, Mozart, Haydn, Tchaikovsky and Dvorak. Barbican Hall (Tue).

Panocha Quartet of Prague with Michael Collins, clarinet. Beethoven, Schubert and Brahms. Wigmore Hall (Wed).

London Symphony Orchestra conducted by Kenneth Klein with Hideko Udagawa, violin. Beethoven and Dvorak. Barbican Hall (Thur).

PARIS

Shirley Verrett recital, Christian Ivaldi, piano (Mon) Theatre de l'Athenee (42301516).

Jorge Bolet, piano: Chopin, Debussy (Mon) Theatre des Champs Elysees (47203637).

Jean Claude Pennetier, piano: Chopin (Mon) Comedie des Champs Elysees (45041215).

Montreal Symphony Orchestra conducted by Charles Dutoit, Anne Sopie Mutter, soloist: Morel, Tchaikovsky, Stravinsky (Mon) Salle Pleyel (45610630).

Eva Graubin, violin, Roberto Bravo, piano: Brahms, Ravel, Franck (Tue) Salle Gaveau (45632030).

Nouvel Orchestre Philharmonique conducted by Paolo Olmi, Maria Tipo, piano: Chopin, Mendelssohn (Tue), Salle Pleyel (45610630).

Francois Rene Duchable, piano recital (Tue), Theatre des Champs Elysees (47203637).

Mozart by Poland's Chamber Orchestra with Yuri Egorov as conductor and soloist (Wed), Theatre des Champs Elysees (47203637).

Teresa Berganza, soprana with Symphonia Varsovia conducted by Alberto Zedda (Thur), Theatre des Champs Elysees (47203637).

NETHERLANDS

Amsterdam, Concertgebouw. The Schonberg and Asko ensembles under Reinbert de Leeuw, with Rosemary Hardy, soprano: Orban, Kurtag, Ligeti, Dallapiccola (Tue). Antal Dorati conducting the Concertgebouw Orchestra, with Zoltan Kocsis, piano: Kodaly, Kalkman: Poulenc, Szymanovsky, Ysaye (Tue). Udo Reinemann, baritone, accompanied by Roger Vignoles: Richard Strauss (Wed). Brahms piano recital by Fred Oldenburg (Thur) (71 83 45).

Utrecht, Vredenburg. The Hague Philharmonic conducted by Alain Lombard, with choirs under Barend Schuurman: Janacek, Ravel (Mon). Lucas Vis conducting the Royal Conservatory Symphony Orchestra, with Ellen Corver, piano: Poulenc, Ravel, Stravinsky (Wed). Recital Hall: The Smetana Quartet: Schubert, Smetana, Beethoven (Mon). Tatiana Nikolajeva, piano: Bach (Wed). The Touring Ensemble under Christian Bor: Haydn, Glazunov, Brahms (Thur) (31 45 44).

Rotterdam, Doelen. Lucas Vis conducting the Royal Conservatory Symphony Orchestra, with Eller Corver, piano: Poulenc, Ravel, Stravinsky (Tue). Schonberg and Asko ensembles under Reinbert de Leeuw, with Arlene Auger, soprano: Orban, Ligeti, Dallapiccola (Wed). Rotterdam Philharmonic conducted by EsaPekka Salonen, with Peter Donohue, piano, and Tristan Murail, ondes martenot: Messiaen (Thur). Recital Hall: Smetana Quartet: Smetana, Shostakovich, Dvorak (Tue). Touring Ensemble under Christian Bor: Haydn, Glazunov, Brahms (Wed). (413 24 90).

Maastricht, Redoute. The Touring Ensemble under Christian Bor: Haydn, Glazunov, Brahms (Tue) (29 38 28).

Nijmegen, Vereeniging. Frans Bruggen conducting the Orchestra of the 18th Century: Haydn, Beethoven (Thur) (22 11 00).

NEW YORK

Carnegie Hall: Elena Obraztsova, mezzo soprano recital. Tchaikovsky, Rachmaninov (Mon) (247 7800).

Juilliard Concerts (IBM Gallery): Carla Trynchuk violin recital. Bach, Beethoven, Saint Saens (Wed, 12.30). Free. 56th & Madison.

Merkin Hall (Goodman House): On Original Instruments. Malcolm Bilson music director. Schubert, Spohr (Mon). 67th w. of Broadway (362 8719).

New York Philharmonic (Avery Fisher Hall): Leonard Bernstein conducting. Schubert, Mahler (Tue); Leonard Bernstein conducting. Christa Ludwig mezzo-soprano, New York Choral Artists directed by Joseph Flummerfelt and Brooklyn Boys Choir directed by James McCarthy. Mahler (Thur). Lincoln Center (874 2424).

Philharmonia Virtuosi (Town Hall): Richard Kapp conducting, Paul Peabody violin. Vittorio Rieti, Bartok, Beethoven (Tue). 43rd e. of Broadway (842 1818).

WASHINGTON

Dresden Staatskapelle (Concert Hall): Sir Colin Davis conducting. Haydn, Strauss, Sibelius (Mon). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestra Hall): Erich Leinsdorf conducting, Janos Starker 'cello. Debussy, Hindemith, Bizet (Wed) (435 8111).

TOKYO

Helene Grimaud, piano. Schumann, Chopin, Liszt. Tokyo Bunka Kaikan. (Tue) (233 4333).

New Japan Symphony Orchestra, conducted by Vladimir Valek with Heinrich Schiff, cello. Shostakovich, Dvorak, Janacek. Suntory Hall. (Wed) (237 9990; 985 4886).

Tokyo Symphony Orchestra, conductor, Kazuyoshi Akiyama, piano: Hiroko Nakamura. Tokyo Bunka Kaikan. Reznick, Beethoven, Tchaikovsky. Tokyo Bunka Kaikan. (Wed) (362 6764).

Scottish Chamber Orchestra, conductor: James Loughran with Maria Joao Pires, piano. Suntory Hall. (Thur) (780 5400).

Theatre

LONDON

Separation (Hampstead): Powerful sequel to Duet For One by Tom Kempinski using that play as furniture in the transatlantic love story of a crippled actress and overweight agoraphobic playwright. David Suchet and Saskia Reeves give all in Michael Attenborough's production (722 9301).**The Rover** (Mermaid). Jeremy Irons roisters into town in the RSC's Swan production by John Barton of Aphra Behn's rollicking comedy. Plays in repertoire with the Chernobyl play, **Sarcophagus,** an urgent but clumsily crafted hospital drama set in a terminal radiation clinic as the first victims of the disaster are wheeled in (236 5568/638 8891).**A Man For All Seasons**(Savoy). Charlton Heston begs no favourable comparison with Paul Scofield as Sir Thomas More in a leaden production of a play best left to amateurs and schoolchildren (836 8888).**Antony and Cleopatra** (Olivier). Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life, with Judi Dench and Anthony Hopkins as battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving (928 2252).

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Small step for the US budget

When is a deficit cut a deficit increase? Answer: when it is a US deficit cut. In the looking-glass world of Washington a triumphant agreement to "cut" the deficit will almost certainly mean a bigger deficit in the 1988 fiscal year than in 1987. Though not what markets wanted or politicians promised, this questionable "success" may even be appropriate in present circumstances.

The US budget-deficit-reduction game is played as follows: first, one thinks of a large number and calls it the forecast deficit; then one thinks of another rather smaller number and calls it a budget cut; finally, one draws conclusions about what the deficit might be if the economic assumptions underlying the first two numbers turn out to be correct.

Actual deficit

For the present fiscal year (1988) the deficit forecast by the Congressional Budget Office was $180bn. The required cut under the Gramm-Rudman-Hollings budget reform law was $23bn. The cut now agreed is $30.2bn, but of this only $23.8 bn counts under the Gramm-Rudman-Hollings provisions. The actual deficit in 1988 would, therefore, be about $155bn, this being above the 1987 outcome of $148bn.

For 1989 cuts have been agreed of $45.8bn, of which $40.7bn count against the Gramm-Rudman-Hollings target. Furthermore, the Congressional Budget Office's forecast for the deficit in 1989 was below that for 1988. If the cuts agreed are put into effect, therefore, the 1989 deficit might actually fall below the level of 1987. What have been the effects of the agreement so painfully reached between the Administration and the congressional leadership? The most striking is that a modest tax increase is planned, of $9bn in 1988 and $14bn in 1989. With the tax increases and defence cuts, the Democratic leadership have certainly taken their pound of flesh from Mr Reagan.

Key issues remain unresolved. It would not be very surprising, therefore, if the agreement were not put into effect by the deadline of December 16 this year. Moreover, the original forecasts for the deficit were based on quite high expected rates of growth in the US economy. The actual deficit for 1988 is quite likely to be higher than the $155bn or so currently envisaged.

What the process has demonstrated is that a significant further reduction of the US fiscal deficit is not to be expected in the next two years. Indeed, in the event of a severe recession the actual deficit could grow substantially from forecast levels, in which case the ratio of federal debt to gross national product could rise quite sharply.

What is the economic significance of this modest progress?

The most important conclusion is that a substantial adjustment of the US external position will not be brought about by further reductions in the federal government deficit. The key question, therefore, is what will happen to private saving. Some estimates suggest savings may rise by $50bn a year, but this is doubtful. It is quite possible, indeed, that the reaction of Americans to the recent dollar depreciation will be to increase expenditures in advance of rising prices of traded goods, especially imported consumer durables and investment goods.

External deficit

If the US external deficit is to continue at a high, if somewhat reduced, level the problem for the rest of the world is eased in one respect and made more difficult in another. It is eased to the extent that the deflationary effect of US adjustment is minimised. It is increased to the extent that the continuing deficits have to be financed.

If the the Group of Seven countries are to meet again next month they could be usefully employed in focussing on the issue of how to finance the US external deficit. The US should be informed that a willingness to borrow in the currencies of the capital exporting countries is required, in return for some fiscal and monetary loosening by those countries. Nothing could do more to underpin the stability of exchange rates and restore voluntary private lending.

On balance, the modest adjustment now in prospect in the US is not inappropriate. In present uncertain conditions, the only thing worse than continuing US external deficits would be a dramatic attempt to end them.

New direction in education

IT WAS AN optimist who likened the UK education system to a supertanker with a rubber tiller - just possible to steer, but unable to alter course quickly. Once Governments stopped greasing the educational machinery with ever increasing supplies of money, it largely became unmanageable. One measure of the new Education Bill will be its success in restoring steerage way. But the acid test will be whether it enables the system to take new directions in line with the needs of society.

In a changing society, no Government can define in advance what those needs are to be. Even if one could, it would be wrong to do so. Just as education is too important to be left to teachers, it is more than important enough not to be left to a set of politicians or, indeed, to any particular group of interests. There are, however, a number of broad issues on which a fair degree of agreement has already been attained throughout the community, and which could sensibly be regarded as realistic aims.

Working skills

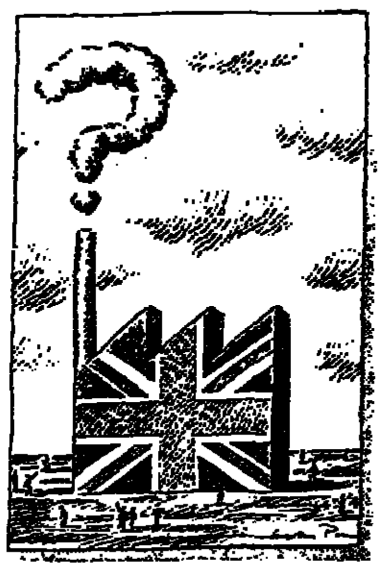
An example is the view that, although the purposes of education reach beyond the mere supply of the working skills required by the economy, it is nonetheless part of education's job to prepare young people to earn their keep. Another example is the belief that it is no longer enough for the system to concentrate its efforts on the minority of children who show an aptitude for academic studies, at the cost of largely failing to develop the more practical abilities of the majority whose intelligences run in other directions. At a time when it appears probable that fewer and fewer people can expect to have jobs handed to them ready-made by established organisations, it is essential that education should strive to equip all its charges with the basic means of finding ways of making a living for themselves.

Unfortunately, while the size of the task that needs doing fully justifies the number and complexity of the Bill's provisions, there are more than enough of them to raise several dangers. The first is that realistic aims will be submerged beneath rhetoric, not only within Parliament but also on the part of pressure groups outside. For instance, discussion of the managerial mechanisms which are needed could all too easily be obscured by claims from the right that the job can be done only by market forces, and from the left that the sole solution lies in bureaucratic planning.

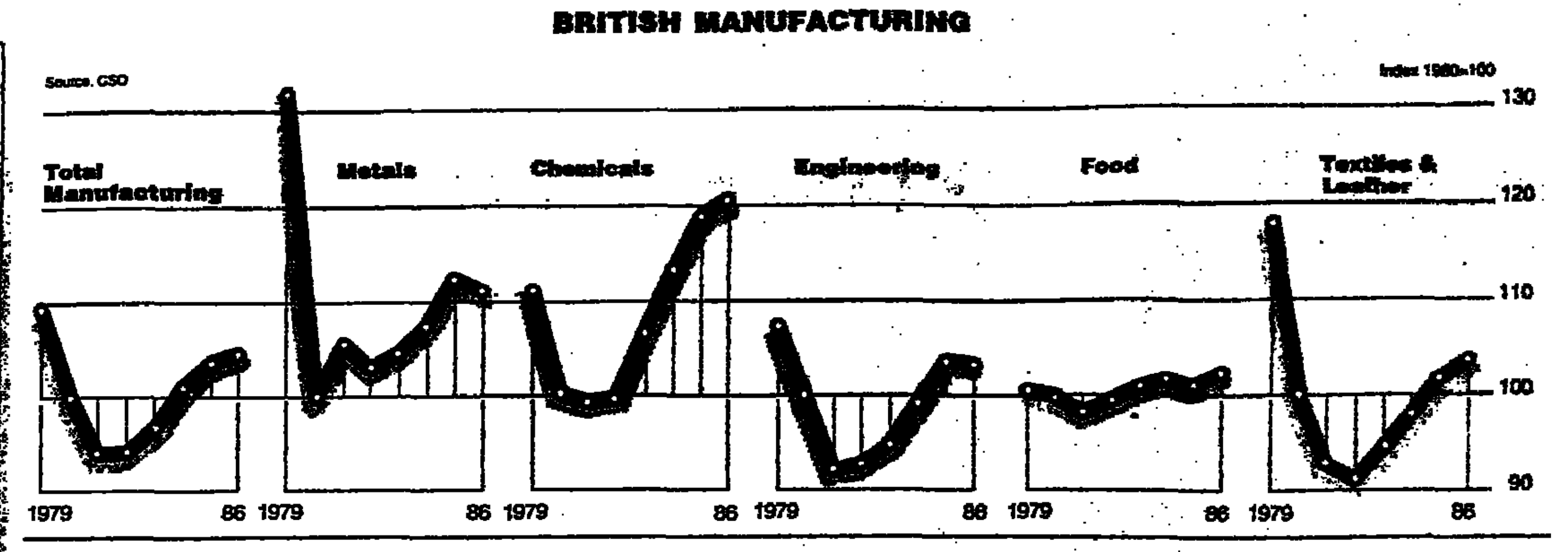
Pressing need

There is sense in the provision for governors and parental customers of a successful school to opt out of local authority control and run it themselves with direct funding from Whitehall. But not all pupils are blessed with parents concerned about their schooling. The aim of giving every child something of value in return for at least 11 years of compulsory education will be fulfilled only if greater market freedom at the successful end of the system is complemented by more effective local authority management at the other.

Another risk is that arguments about the system's structure will swamp consideration of the content of what is taught within it. One reason why so many children become dissaffected by their education is almost certainly that schools have largely failed to provide studies and teaching methods suited to pupils of practical rather than academic bent. While there is a pressing need for the development of such alternative educational products, it will not necessarily flow from the introduction of the long overdue national curriculum even though the core subjects henceforth to be studied by every pupil include a topic with the name "technology". The key issue is not what the subjects taught are called, but the things children know, understand and can do as a result. The greatest danger, however, is that Ministers' concern to exert tighter control will deprive the system of essential flexibility. It is only individual teachers who have power to deliver the educational goods the nation needs, which they cannot do if their initiatives are overly restricted. Moreover - since even the best laid plans never work quite as intended - it is important that the Bill's effects are kept under continuous review so that unwanted consequences can be swiftly eliminated.



BRITISH MANUFACTURING



A wealth of contradictions

Terry Dodsworth and Nick Garnett examine recent changes in Britain's manufacturing performance, in the first of a series of six articles assessing the extent of recovery since 1979

"British business is in a healthier state than it has been for a generation. Output has been rising steadily for six years. Productivity has increased at a rate second only to Japan. Company profitability is at its highest in over 20 years. Industry has a confidence in the future that would have been unthinkable seven years ago." (Conservative Party Manifesto, 1987)

"I can see no sign of a resurgence in UK manufacturing at all. As I travel up and down the country, I detect companies making all the old mistakes - too little investment, not enough attention to quality, and a total unawareness of the importance of design. What recovery I see is coming entirely from the foreigners: Ford and General Motors in motor cars, the Japanese in televisions, and the Americans in semiconductors." (A senior UK executive)

THESE DAYS it is not difficult to find industrialists in the United Kingdom who will give equally passionate endorsements of both these accounts of UK manufacturing's performance. Many executives believe that the ferocious shake-out in British industry in the early 1980s has had such a purgative effect that a Renaissance in UK production is just around the corner. Others argue that the last few years have condemned whole sectors of manufacturing to terminal decline.

These contrasts in attitude are a consequence of the wrenching changes that have been forced on British industry during the Thatcher years. These adaptations have generated both abnormal problems and unusual opportunities. They have also broken patterns of performance and behaviour, making it difficult to identify the direction which British manufacturing is taking, its competitive position or its specific areas of strength.

For the positive thinkers, there are plenty of hopeful signs. Production is rising strongly in many areas of industry. In particular, vehicle production is enjoying a comeback - output has shot up by about 300,000 units over the last three years and is rising.

In pharmaceuticals, Glaxo has the world's biggest-selling drug only five years after its launch. Even in a mature, supposedly broken-down sector like machine tools, in percentage terms production rose last year faster than in any other leading machine-building country. On the back of leaner and tougher manufacturing, companies have notched up big profits growth, sometimes of extraordinary proportions. In the once-reeling textile industry Courtaulds has seen its profits rocket from £5m six years ago to £201m last year.

The climate in which manufacturing business operates has changed too. The number of working days lost through strikes has plummeted, down from 10m in manufacturing companies in 1980 to less than 1m last year. British management has also begun to show a new, if belated, awareness of its problems and the nature of the international challenge it faces. "We believe in using flexibility in our manufacturing processes as a competitive tool," says Mr John Dickson, director of manufacturing operations at ICL, the computer group. "We reckon that we are among the top five information technology companies internationally in the productivity of our assets, and we insist that our senior managers see what other companies are doing overseas by visiting them regularly."

Not least, the perception of British companies has undoubtedly improved among their international competitors. Manufacturing experts overseas are unquestionably impressed by the UK's chemicals industry, smaller than those in West Germany and France, but equally efficient. Many also admire the British aerospace sector. In Jaguar, the luxury car company which turned from ugly duckling to glamorous princess in the space of just five years, the country has a seductive champion. "It has done wonders for your image," says Mr Harry Diegmann, a senior manager at West German car component suppliers, Kromberg and Schubert.

Nevertheless, Jaguar does not add up to a car industry, any more than ICL sets the standards for the rest of the manufacturing sector. Indeed, in sharp contrast to the evidence of resurgence, the last few years have highlighted a range of deep-seated weaknesses in UK industry.

The first of these problems lies in the big capacity cuts of previous years. In areas where British companies have relinquished large amounts of ground, it is hard to see how it can be recovered. The motor industry, for example, is a striking case of a sector where home-grown UK producers went into strategic retreat, ending in a full scale rout at the hands of importers and foreign-owned multinationals.

Back in the mid-1960s, British motor manufacturers produced about a third as many cars and trucks as the French. Despite expansion in the last few years, the UK is now producing well under half as many as the French. In fact, output in the UK peaked 15 years ago at 2.3m, some 900,000 units more than the country expects to turn out this year.

Second, the UK has lost world market share across such a broad range of industries that its few healthy sectors find it increasingly difficult to carry the trading imbalances of weaker production areas. For instance, in the textile industry where, as recently as the 1950s, the UK stood alongside the US as one of the world's two leading producers. Profits are now big, but Britain's trading imbalance actually worsened last year. Similar attrition is continuing in a range of strategic industries across the technology curve from many types of production equipment to computers.

Third, the UK has clung to its position in traditional industries with declining importance in world markets rather more successfully than it has gained a grip on the expanding sectors.

For instance, in mechanical engineering, where Britain was once such a dominant force in the world, the UK still has a £2bn trade surplus, despite a steady erosion of its position. By contrast in electronics, a much faster growth sector, producers are failing to expand in step either with the world market or with overseas competitors. As a result the country has slipped from rough equilibrium in its electronics trading position in 1970 to a deficit of £2bn last year.

Fourth, the country is still suffering heavily from its reputation for inadequate training and organisation. It is true that the exceptionally strong profits recovery in the last three years is partly due to tighter manning, better labour practices and lower working capital. But in many industries, foreigners believe Britain's organisational practices are still a drag on its performance.

"If we were trying to locate a specialised incoming foreign engineering company in Europe, we would definitely look first to West Germany and Switzerland," says Mr Christoph Maier-Rothe, responsible for manufacturing operations at the Arthur D. Little consulting group in West Germany. "This is where you can find the people to do the sort of things you want."

One effect of the shifts and upheavals of recent years is that a bigger percentage of British companies appear to be locked in niche markets. Only a few industries have really escaped this trend, notably aerospace, defence electronics and chemicals.

In the past ten years, aerospace has raised turnover from £2.5bn to £8bn, more than quadrupled exports to £4.7bn and confirmed its position as the second largest in the west with a 17 per cent market share of internationally traded aerospace products. Chemicals, successfully widening its products from bulk to speciality materials, notched up a £2.5bn trade balance last year. Some £850m of this came from pharmaceuticals, an industry where Britain has matched market exploitation with product innovation.

These buoyant sectors characteristically embrace a number of big British-owned companies which use large in-house and British-based technology to help retain their status as genuine global competitors. These companies include Rolls-Royce, British Aerospace, ICI, and the Marconi defence equipment subsidary of GEC.

But Britain does not have companies of this kind in many other areas. It has no big international car maker and lacks a consumer electronics business the size of Philips or a telecommunications enterprise on a par with Ericsson. At the same time, US, Continental and Japanese-owned production plants - with their technological bases overseas - are accounting for an increasing share of Britain's manufacturing output.

This raises two questions. How effective an international trader can a country the size of Britain really be on the back of niche markets? And are there any pitfalls in the increasing dominance in the UK of big, vertically-integrated foreign companies that tend to use it as a manufacturing satellite.

It may be right that the country should no longer try to compete across the board. It clearly produced some significant successes with niche-type strategies in the 1980s - Courtaulds in textiles and Jaguar in cars. But medium-sized companies are not capable of acting like industrial locomotives.

"The problem with concentrating on niche markets is that they can be picked off by larger companies when they decide to put some effort into it," says Mr Ronald Armstrong, director general of PERA, the management training group. "It is much harder for newcomers to break into a vertically-integrated structure."

But foreign ownership can undoubtedly bring considerable benefits to the economy. These companies tend to be generous importers of new practices in management, technology and shopfloor organisation which can spin off locally. The turn arounds at Plessey semiconductors and ICL, for example, have largely been achieved with managers trained in American companies. Foreign investment in areas like Scotland's Silicon Glen has begun to feed through into the education system that provides graduates to man the companies and new ventures launched by executives trained by them.

Multinationals have also had a strong influence on the increasing production of the last few years. UK car output has gone up mainly because Ford and General Motors are transferring production from the Continent to the UK and Peugeot is expanding car building in the country. Television and microwave cooker output is rising because the Japanese have invested in Britain.

All of which brings us back to the jaded observations of the anonymous UK executive quoted above. In his view, multinationals have become the driving force of British manufacturing in a clutch of important sectors. That, he believes, carries dangers. Like many other industrialists he finds it difficult to prove that indigenously-owned companies lie at the heart of a country's industrial strength. But he expresses a widespread sentiment when he argues that a pound of investment spent on an indigenous company is worth more than a pound spent by a foreign group.

"A lot of our current increase in output is currency related," he says, "coming from companies that can equally shift investment elsewhere. I think it is better to have an economy where the currency is dependent on how you are performing industrially, as in West Germany, than one in which your production follows the currency swings."

	1986 GDP £bn at 1985 average exchange rates	1985 Manufacturing as % of GDP
US	2886.5	20.4
Japan	1340.2	29.8
W.Germany	612.3	32.3
France	493.7	n/a
Italy	409.1	26.2
UK	373.7	22.6

Source: OECD

The wrenching changes forced on British industry during the Thatcher years have broken patterns of performance and behaviour and made it difficult to identify areas of strength

Further articles in the series will appear in the FT this week.

DELHI, NOVEMBER 22

Soviets show a jolly face

The Soviet Union took India by storm last night, and today its instant victory is the talk of Delhi. It staged a music, culture and gymnastics spectacular in one of the city's large open air stadiums, holding about 50,000 people, which did more than any event ever held here to put a colourful, warm, and even jolly, human face on the usual drab image of the USSR.

The Bolshoi Ballet danced part of the Nutcracker - performing for the first time in an open air stadium. It was followed by gymnasts, folk and contemporary dance troupes from all over the Soviet Union, and a magnificent circus. Finally, from a balloon, trapeze artists were strung high above the stadium as spacemen, symbolically depicting the future.

Throughout the two hour display, which was televised live, 7,000 Indian school children, trained for a month by Russian experts, manipulated a constantly changing sea of coloured cards and small lights to provide backdrops of words, buildings and Russian scenes.

Opening a year long Festival of the USSR in India, the extravaganza is being followed today by an exhibition of West European art from the Hermitage in Leningrad. It includes Raphael's Holy Family, Rembrandt's Sacrifice of Abraham, and nine other paintings and 33 sculptures never before allowed out of the USSR.

During the year there will be events in 60 Indian cities involving 2,000 Soviet artistes, 500 members of a youth delegation and 200 sportsmen - all dedicated to celebrating the 70th anniversary of the Soviet revolution and the 40th anniversary of India's independence.

The drought now affecting about half India's population has led to the festival's being reduced in size, partly to contribute to public spending cutbacks, and partly to show the face of austerity which the Government believes should be transmitted from Delhi. India's costs in supporting the festival have come down from Rs330m (about £14m) to Rs260m.

Men and Matters

Politics first

This cultural bonanza, which was opened by Nikolai Ryzhkov, the Soviet Prime Minister, is of course a major political statement by the USSR for India, its closest and most important friend in the non-Communist world.

But while there has been close diplomatic friendship and trust, plus extensive cut-price defence and equipment sales to India, the ties have not gone much further and, up to now, have had little depth.

Indians, including the business and government elite, show little interest in the USSR, and it is rare to find someone who, having been there once, wants to return. The rich prefer to travel through western Europe to the US for business-subsidised holidays when the temperatures soar above 38 deg C in India, and they send their children to US or UK universities and management schools, not to the Soviet Union.

Moore's success

India's major international cultural exchanges started with the impressive 1982 Festival of India in the UK. Similar events followed in France and the US, there is now one in progress in the USSR, and another is planned in Japan next year. This Soviet festival is the first return event.

The UK has not managed to mount a full festival in India but the British Council has just run a highly successful exhibition of Henry Moore sculptures and etchings in the National Gallery of Modern Art. This closed a week ago - to make room for gaudy pictures of post-revolutionary Soviet art - having drawn more than 55,000 visitors over six weeks, almost twice the normal number for the gallery.

Prestige is important in these cultural exchanges. Narasima Rao, the minister responsible for the arts, has laid much stress on the size of the Soviet show. Some government officials were specially pleased with the Moore exhibition because the UK agreed to send about a dozen extremely large bronzes, not just smaller sculptures.

On the same theme, there is a mischievous story that, when the UK offered India a Turner exhibition a couple of years ago, it was rejected by officials who thought "water colours" were mere reproduction prints.

Rajiv's luxury

At a time of austerity and public spending cutbacks, Rajiv Gandhi is earning himself a bad press for his extravagances in flying to the Commonwealth Summit in Canada last month. He took two Air India Boeing 747 jumbo jets - one for use and one on permanent standby - out of the airline's small fleet of 10 jumbos for his 11-day return flight.

Air India had to lease two other aircraft for over a month to replace the planes during the journey and expensive fitting out. It all stems from the fact that an old, two-engined Boeing 707 carrying Gandhi was forced last year by engine trouble into an embarrassing, unscheduled landing in Moscow. Rajiv, an ex-airline pilot, now insists on four engines - with four more on standby.

Casinos afloat

Anxious to boost foreign exchange earnings from tourists, India is debating opening its first casinos. Newspapers are expressing cultural horror and moral shock at this idea, which was first raised, and then dropped, during India's 1975-77 State of Emergency by Sanjay Gandhi, Rajiv's younger but then politically active brother, who was killed in a 1981 air crash.

The worldly young Minister for Tourism and Aviation, Jagdish Tytler, who was a follower of Sanjay's and has revived the idea, has amazed people by claiming in an Indian newspaper interview that he is not sure what a casino is.

"I don't really know except that one hears people play roulette, cards, and other games, have a drink, gossip."

Q: "What are other games?"

A: "Certainly not cabarets, massage parlours...no no I am against all this..."

And so the debate will continue. The consensus is that Indians will be banned, and the dens of iniquity will somehow be "off-shore". It is not clear whether this will mean hidden on the Andaman islands, India's distant ocean territory near the coasts of Burma and Thailand, or put in a ship off the holiday beaches of Goa.

Cheysson piqued

Claude Cheysson, European Commission member for North-South relations and a former foreign minister of France, has topped the ratings for diplomatic pique in this gossipy and highly political city, which is now welcoming its annual cool-weather flood of foreign tourists and official visitors.

Cheysson was due to come this month to review European Community aid of about $100m a year. Meetings were arranged, including four ministerial lunches, one with Narayan Datt Tiwari, veteran Finance Minister.

But a 15-minute session with Gandhi, who also holds the foreign affairs portfolio, did not materialise on the proposed agenda because of Gandhi's heavy list of engagements. Highly miffed over this 15-minute gap, Cheysson curtly cancelled the whole trip. He said it would be better to come another time when the "Foreign Minister" was available.

Observer

AN INTERVIEW WITH THE PRIME MINISTER: By Geoffrey Owen and Malcolm Rutherford

Thinking about the year 2000

MRS MARGARET THATCHER has more or less mapped out her plans for the course of British politics until the years 1992-93, so far as events are under her control. She has begun to think about what to do after that and is already looking for suitable ways for Britain to mark the second millennium.

The Prime Minister appears more strongly opposed than ever to attaching sterling to the exchange rate mechanism of the European Monetary System and in economic policy is seeking the maximum freedom of action.

She is opposed to any fundamental changes in western defence policy after the likely superpower agreements on the reduction of nuclear weapons and believes that Britain is still a global power.

At the meeting of the European Council in Copenhagen next week she will seek an unbreakable guarantee that farm surpluses will be reduced and that spending on the common agricultural policy will be cut back. She is also canvassing a new proposal which, if adopted, would enable existing farm surpluses to be written off overnight by national governments and the common agricultural policy to start afresh with a clean slate.

Those were some of the main points to emerge from an interview with the Financial Times on Friday.

Mrs Thatcher denied categorically and repeatedly that there was any exchange rate target for the pound, whether against the D-Mark or any other currency or basket of currencies.

"At the moment," she said, "everyone is geared to the D-Mark, save us. The DM at the moment is slightly deflationary. That *means that the whole of* Europe is geared to a slightly deflationary policy. Now, we have not been so geared and we have had a greater degree of freedom in relation to both the dollar and the D-Mark and I just think that I am grateful for that."

She rejected completely the notion that the pound was tied, at least unofficially, to a rate of just under or around DM3. "There is no specific range," she said. "We are always free."

Present British exchange rate policy, she argued, was quite different from "actually getting yourself onto graph paper and saying 'I live within these few boxes', and then letting people test you as you come up to a top...We are not confined to any particular limits and I do not like us to be, because to do that is to tempt people to have a go and you cannot beat a speculator except over a short period."

The Prime Minister was reminded that in an interview published in the Financial Times on November 19 last year she had said that a principal reason why Britain could not become a full member of the EMS was that the domestic economy was still too weak and might have to come out again under speculative pressure.

She replied that the economy today was certainly strong, but added that, from her experience of recent times, she thought: "We have been freer and perhaps been able to be more helpful than we could have been, had we been on the exchange rate mechanism."

It was one thing to run your exchange rate "near to something, near to one particular band, for a period if it suits you - everyone knows that you are not constrained by that band and you can come off it today or tomorrow if you wish."

Mrs Thatcher was also sceptical about the possibility of a more managed international exchange rate system working because, she said, no such system "can be a substitute for sound running of economies." It would work "only when you are all running your economies in a similar sound way." "Sound" was a word she used repeatedly throughout the economic section of the interview.

As in her speech to the Lord Mayor's banquet in London last Monday, she again called for stimulative action from West Germany and Japan. "No-one is entitled to have a balance of payments surplus entrenched in the way in which they run both their economy and also their society - or if you like to put it - their culture, because if that were to be so, then when the US deficit goes down, it means that the rest of us would have to carry a bigger proportion of the can than we should."

On defence policy the Prime Minister reaffirmed her view that, after a superpower agreement on the elimination of intermediate nuclear forces and a possible agreement on the reduction of intercontinental ballistic missiles, "There must be no further nuclear weaponry taken out of Europe before we get the Soviet Union much further nearer to us on conventional weapons and before we see whether we can in fact get a verification system and the Soviets agreeing to eradicate their chemical weapons because we have eradicated ours."

Mrs Thatcher dismissed completely any suggestion of an American military withdrawal from Europe. "The frontier across Germany," she said, "is the frontier of freedom for the US as well as for Europe."

She also argued that British defence policy was fully support*ive of the US* around the world, and not just in the Nato area. "We had the best minesweepers and they are busy sweeping mines in the Iranian Gulf...We have troops on Belize, Cyprus, Sinai over to Hong Kong, in Africa, in the Gulf, indeed we have troops in one form or another - some as military advisers and trainers - in 30 countries in the world and of course in the Falklands, and that means that we are still a global power and we do our bit."

The presence of the troops in Belize, she went on, demonstrated to the US how Britain understands what Americans feel "about some of the threats from Central America...It keeps a stable democracy there right on the Central American front."

Asked whether there was still a special relationship between Britain and the US, the Prime Minister replied: "Very much so."

She gave some credit to France for also taking part in defence activites outside the Nato area. Then she added: "The best possible thing of course - which I cannot see happening - would be for France to rejoin Nato, militarily integrated."

In a reference to recent moves towards closer defence co-operation between France and West Germany, she said: "What I think that we have to watch is that there do not grow up sub-structures in Europe which could have unwittingly, unintentionally, the effect of undermining the links across the Atlantic Alliance...I think it is important that those (Franco-German) arrangements do not take on wholly a bigger life of their own."

Mrs Thatcher's comments on what she clearly regards as an undisciplined approach to expenditure by the British Ministry of Defence were expressed largely in mime: a sharp indrawing of the cheeks and an extended out*drawing of breath. She said* quietly: "There was something called Awacs and Nimrod."

There was a warning for the future. "As I am constantly saying to our defence people, just make certain that you do not waste anything, and you will just about get the same amount out as you have been getting in the past."

On the European Community and the key meeting of the heads of government in Copenhagen next week, the Prime Minister argued that from her point of view agriculture, coupled with Community financing, were "just about the long and the short and the tail of it."

The basic point is that the Community is now up against the limit of its permitted expenditure and that Mrs Thatcher will not agree to an increase until existing policies are radically reformed, especially on agriculture. The British Government is seeking firm and binding regulations that are automatically applied to reduce surpluses. "Unless we get that," Mrs Thatcher insisted, "there will be no progress."

If there were no progress, she went on, there would be no increase in the Community's financial resources. Spending would have to be determined on a monthly basis while the negotiations were continued until the next European Council.

There are two possible approaches that the Prime Minister says that she can support. One, being canvassed by the European Commission, is to apply a system of "stabilisers" to all agricultural products. Stabilisers mean setting production ceilings and progressively reducing the subsidy if the ceilings are exceeded. If adopted in an enforceable way, they could result in the surpluses being reduced to an agreed strategic level by 1992, a year that Mrs Thatcher regards as "exciting" for a number of reasons.

However, she has an alternative and more radical proposal that she is understood to have put to Mr Jacques Chirac, the French Prime Minister, yesterday. It is what she calls the "clean slate" approach on surpluses. It amounts to the member states agreeing now to write off their existing surpluses now, and to do so through their national budgets rather than through the common agricultural policy.

She said: "Each of you agrees on your national budget to take and accept the responsibility of a clean slate. Each of you writes down what we have got and takes responsibility for disposing of it without the writing down or costs of the disposal coming on to the CAP."

Such an approach, she argued, would be "much fairer to countries like Spain and Portugal because, after all, the surpluses are not their fault." She herself would be prepared to write down the "quite considerable" British surpluses. But she wondered how many other countries would be ready to accept such a speedy solution that bypasses the traditional workings of the common agricultural policy.

On domestic policy the Prime Minister showed some anxiety about inflation. She found it "worrying" that over the last four years "it seems to have fluctuated between about 3 and 5 per cent." The aim was still to get it down further and the Government had used higher interest rates in August as a sign of its intent.

She also claimed that inflation was unlikely to go on being fuelled indefinitely by such factors as higher house prices in the south east. The process, she said, should be "self-correcting". "There is a great incentive to companies now to move further north because salary-for-salary their people will have a much higher standard of living...It may take three, four, five or six years...the Birmingham area is not very far away; they might go further still."

Mrs Thatcher was adamant that there would be no abolition of mortgage tax relief. "I think you may take it," she said, "that it is pretty well out..."

The reasons why she regards the years 1992-93 as potentially so exciting are manifold. The internal market of the European Community is due for completion by 1992, as well as the overhaul of the CAP even by the slower route. "It is just very fortunate that the next year you should get the Channel Tunnel open and, really, as far as we are concerned, (Europe) should become a much greater reality."

There may also have been developments at home. In previous interviews with the Financial Times, Mrs Thatcher has given her views on the state of domestic politics and the opposition parties. This time there was a lengthy pause before she said: "Do you know, I have not really given that very much attention because I am so much more concerned to carry on with our own policies, to get those well ahead... and then to start on the next Parliament."

She thought that British opinion might have turned subconsciously against coalitions because of what it saw on the continent.

Being coalition-free, she claimed, "gives us a freedom of decision, decisiveness, leadership, that others are not free to exercise."

She went on: "We have got really enough to do within four years now and quite a lot that comes on next, and then, almost every western country is going to think of trying to get some special attainment going by the year 2,000...you have got to make it some kind of target. It is a natural target."

Asked what the attainment would be, she said: "I do not know. That is what all of us are trying to think of now. It will be something that involves everyone, every kind of small town and village."

To the question whether she would still be Prime Minister in 1993, she replied: "Well, one would like to be, but it does not wholly depend on me. At the moment we have got past one milestone: you know, you see them stretching out before you, and each one gets more exciting."

Mrs Thatcher ended in full flood with a long statement of her belief in restoring the values of the Victorian age. The prosperity of the south was moving north - to Manchester, Nottingham, Bradford.

There had been a civic pride in the past that had led the city fathers to say that prosperity and beautiful town halls were not enough. They had gone on to set up libraries, orchestras and art galleries. They were "almost city states - a complete ideal." That was what she wanted to happen again.

Letters to the Editor

Abolition is the only option

From the Director of The National Association of Port Employers.

Sir, Your leader on the need to review the operation of the Dock Labour Scheme (November 16) was timely indeed. It is astonishing that such a restrictive piece of employment legislation still remains on the Statute Book after eight years of Conservative free market policies.

The port employers, burdened by the restrictions of the Dock Labour Scheme, are grateful that you have pointed out some of the glaring deficiencies that result from the operation of the Scheme. I hesitate to be critical, but I think it is important that we resist the faint suggestion in your final paragraph that some reform of the Scheme would substitute satisfactorily, to avoid outright abolition. The port employers, desperate to remove the Scheme, but wishing for it to happen without major confrontation, have been looking in detail at the way in which repeal of the Dock Labour Scheme might be promoted to Government, meeting both political, social and industrial aims. We are forced to conclude that there is no substitute for outright abolition. Every possible alternative has been looked at, including freezing the Scheme to existing registered dock workers, and amending its operation so that some of the functions of management, such as recruitment and discipline, could be returned to proper management control. None of the lesser solutions work satisfactorily. The choice is really quite stark, and frankly cannot be continually avoided by a "blind eye policy". As the registered dock labour force grows old together, so inevitably recruitment must follow, and with it will come the prospect of perpetuating the inflexibility and rigidity of labour controls in 70 of Britain's major ports. "Withering on the vine" is not a realistic option, because it ulti*mately condemns all of those* vitally important geographic areas to unnecessary decline and dereliction. Water front flats only create temporary jobs. The exploitation of the land/water interface with a better mix of industrial/tourist and leisure activities would be faster, and would create more jobs if the future investor no longer had to worry about outdated "definitions of dock work." The Government should make these a relic of the past.

The port employers are ready and willing to discuss how the transition to normal employment conditions can be handled without severe *disruption to the lives* of today's registered dock workers. They cannot do that until the Government has signalled its clear intention to remove the Scheme. Only then, when the Scheme has been finally put to rest, can the true modernisation of employment relationships take place in the Scheme ports, and an end be brought to the first and second class port worker (created by a statutory demarcation line) which does so much to harm motivation and enterprise.

Nicholas Finney,
Commonwealth House,
1-19 New Oxford Street, WC1.

Irish American shock and dismay

From the Attorney General for the Commonwealth of Massachusetts

Sir, As a former Member of the United States House of Representantives who was active in working to promote religious equality in Northern Ireland, I was pleased to discover that the British government is to strengthen its sanctions against Ulster employers who unfairly discriminate against Catholics. As the Attorney General for the Commonwealth of Massachusetts, I know that requiring employers who do business with the government to adopt provisions ensuring non-discrimination in hiring is one of the most effective means of ensuring equal employment opportunity. Our experience in the United States has shown that monitoring contract compliance can work quickly to eliminate discrimination on the basis of race, gender and physical disability. Contract compliance, and its results, have proven almost universally popular. Not only minorities, but business and the economy itself benefit from a system of equal opportunity. A suggestion by the Reagan Administration that federal contract compliance be curtailed was vigorously opposed by the business community: the proposal was *dropped*. As the confirmation battle over Judge Bork has demonstrated, no one in the US wants to return to the old days of prejudice and discrimination.

While encouraged by your Government's plans regarding Northern Ireland, I was shocked and dismayed by a recent bill which will actually prevent local governments from requiring non-discrimination provisions for women and the disabled, and which will restrict such provisions with regard to racial and ethnic minorities. How can the Government on the one hand condemn discrimination against Roman Catholics in Northern Ireland, and institute a well tried and effective weapon against it, while on the other hand prevent the use of that weapon to combat other forms of pernicious discrimination? Is the Government claiming that no barriers exist to equal employment opportunities for racial or ethnic minorities, women, or the physically disabled? Or is something else happening?

As you know, we in the United States Congress were very concerned about discrimination against Catholics in Ulster: there have even been calls for economic sanctions against Northern Ireland. One wonders if providing relief from discrimination for Catholics while denying it to others is not in part the result of pandering to American opinion. There may be a view in Whitehall that "all the fuss" from Washington about equality of opportunity is simply the parochial concern of Irish Catholic Americans. If so, I am deeply offended. We Irish Americans can take little comfort from the redress of one type of discrimination while knowing that others will be tolerated. We are not so selfish and small minded.

It is my understanding that the American Association of Manufacturers has actively opposed the ending of contract compliance standards in the United Kingdom. I urge the British government to listen to their arguments and to consider the American experience. Fair employment is not only a moral imperative, it is good business.

James M. Shannon,
Office of the Attorney General,
1 Ashburton Place,
Boston, Massachusetts.

Private savings affect US deficit

From Mr Simon Taylor.

Sir, Mr Paul Craig Roberts (November 11) takes a sanguine view of the US budgetary position. He correctly points out that a large public sector deficit need not be associated with a trade - or *more* generally, current account - deficit. This is obvious enough: the proposition that budget deficits produce current account deficits requires an auxiliary assumption about the private sector's net acquisition of financial assets. The International Monetary Fund and - in days past - the Cambridge Economic Policy Group have been known to adopt such an assumption. But it is the overall intersectoral flow of funds, and the real economic variables that cause them, that need to be addressed. The low private saving of the US and the private saving of Japan therefore become highly relevant. Nobody wants "policymakers to lead the world into recession as an antidote to the US deficit."

Regrettably though, the US collectively can only import savings from the rest of the world if the rest of the world is able and willing to lend them. This simple relationship underlies the whole policy debate.

Simon Taylor,
London School of Economics,
Houghton Street, WC2

Japanese strategy and the crash

From Mr Alan F. Bartlett

Sir, As usual we are facing the wrong way. The basic cause of the 1987 stock market crash is not within the control of the West nor even of the President of the United States. It lies buried in the international strategy of Japan.

It is no coincidence that it happened within a year of the Big Bang: that event transformed the world's stock markets into a sophisticated currency exchange system whose commodity is printed paper.

Over the years Japan has induced the US, by its generous financial support and the creation of a Japanese controlled manufacturing empire within the US itself, to enjoy an unearned deficit. Their solution has been to offer the Americans a substantial loan "in yen." And therein lies the rub. Should this offer be accepted, then the almighty dollar will have relinquished its crown to the subservient but ubiquitous yen. Japan will be well on the way towards its primary strategic target: control of the world's monetary system.

A reduction in the US budget deficit will alleviate the attendant problems only because it is assumed to be the cure. In truth, it will not. Indeed, should the President bow to political pressures, he may find himself looking straight into the welcoming eyes of his Japanese saviour.

The true problem is that Western politicians cannot command or even influence those who control the Japanese economy - they are beyond the influence even of the Japanese politician. So our representatives seek an easier target.

The cause of the 1990s crash will be labelled the UK deficit; the direct result of continued high expenditure despite the *diminution of oil revenue*. Who else but the Japanese to bale us out? Then the sun - which now never sets on share dealing/currency manipulation - will not set on the new Japanese monetary empire to which we, by our current ineffectiveness, will have made an invaluable contribution. The Germans will survive a little longer, but the only realistic competitors left could be the Chinese, though they will depend more on the weakness brought about by Japanese affluence than on their own economic strength. The US budget deficit is as much an effect as the crash itself. The cause of both is the West's inability to match the economic strategy of the East. We have lost a battle because we do not even realise we are at war.

Alan Bartlett,
The Coach House,
Litfield Road,
Clifton, Bristol

FINANCIAL TIMES

Monday November 23 1987

Janet Bush on Wall Street

Cracks in the smiling facade

THE CALIFORNIA Public Employees Retirement System, one of the largest public pension funds in the US, with more than $40bn under management, announced last week it was going international for the first time.

The fund has appointed 12 money managers, several of them based in London, and from about the middle of next year will hand them collectively between $1bn and $1.5bn to invest in portfolios balanced almost equally between overseas equities and fixed income securities.

Those who may see this historic decision as a defensive strategy in the face of last month's Wall Street collapse, and as a pessimistic view of the US economy, would be wrong. Pension fund managers simply do not move that quickly - the decision, according to Mr Basil Schwan, assistant executive officer for the fund based in Sacramento, California, was taken two years ago.

Nevertheless, Mr Schwan acknowledges that the decision looks even more rational in the light of last month's share price collapse, which has lent more urgency to efforts to spread risk not only between fixed interest and equities but also between countries.

The decisions over the past fortnight by two substantial US companies - Boeing and Rockwell International - to cut back severely the equity component of their pension funds did not, on the face of it, seem to have been the product of a long-thought-out strategy.

Indeed, other participants in the pension fund business appeared to treat their action with something akin to derision. A leading pension fund expert expressed the view that any company which attempted to make a judgment on future market trends with precise timing, was deluding itself.

In the same vein, a leading consultant to pension fund plan sponsors and fund managers, commented on Boeing's strategy: "I would stand by their judgment as George Bush stands by Ronald Reagan."

In the context of pension funds, which view the world in 40-year chunks, Rockwell's order to its fund managers on November 12 to cut the stocks in their portfolios to zero within two weeks, seems radical indeed. Some estimates suggest that 75 per cent of Rockwell's $7bn fund was made up of stocks.

(Those who may want to give Rockwell the benefit of the doubt could point to a strong rebound in the Dow Jones Industrial Average that day to 1960, and argue that the company gave its order to sell at a very fair price.)

Boeing said it had been selling equities since July. However, the company tacitly acknowledged that the programme had been stepped up since October 19.

Those in the business who know Boeing well, including one of its fund managers, do not see the company's move to sell a substantial proportion of its equity portfolio as a knee-jerk reaction to the events of October 19, but as a decision taken calmly and based on a rational view of the world.

Nevertheless, Rockwell and Boeing appear to stand alone - there has been no evidence of substantial shifts in other pension fund portfolios other than the shift forced down fund managers' throats by the global equity crisis.

Mr Schwan said he and his colleagues at the California Retirement System had been buying stocks ever since the day after Black Monday on the old adage, "buy high and sell low".

Mr George Russell, chief executive of the Frank Russell group, an investment consulting business which advises the people who control $200bn in pension funds and other assets, believes institutions will re-enter the market once the dust settles.

Those funds which, on the day share prices collapsed, were looking at an ideal balance in their portfolios, would naturally now be underweight in equities after the slashing in their values. Unless they have made a fundamental reassessment of comparative risk premiums between equities and fixed interest, they should start buying again.

This "business as usual" view of life is quite prevalent in Wall Street and its satellites. Nevertheless, there are cracks in this smiling facade. One crack appeared to widen at last week's meeting of 85 leading corporate pension fund officials at the Waldorf Astoria Hotel in New York, who were complaining even more vociferously than usual about the enormous brokerage and investment management fees they have been paying - this at a time when securities houses are already under tremendous pressure.

Boeing and Rockwell represent two more cracks. Are these mavericks who stand boldly alone in acknowledging the 1987 equity crash has not yet run its course? Or are they just panicking? Only the market can give that answer.

EC bids to break budget deadlock

BY TIM DICKSON AND QUENTIN PEEL IN BRUSSELS

CRITICAL TALKS to resolve the European Community's chronic budget crisis, and put strict limits on farm spending, reopen in Brussels today, offering virtually the last chance of reaching agreement in time for next month's EC summit in Copenhagen.

New ideas to break the deadlock between the Agriculture Ministers and the Foreign Ministers of the 12 member states will be presented at parallel meetings.

The soaring cost of the Common Agricultural Policy, currently almost Ecu 27bn ($31.9bn) a year, or two-thirds of the total EC budget, remains at the heart of the crisis.

However, it has spread to include the crucial questions of who bears the burden of the budget, what other cash will be voted for new policies, and how spending control can be enforced across the board.

Key issues to be resolved are: the exact limits to be set on subsidising farm production in each individual sector; the overall amount of cash available for farm spending; how much more should be set aside for social and regional policies in the poorest member states; and whether the member states can devise a fairer and more reliable basis for calculating their contributions to the Brussels budget.

The problem facing Denmark, currently in the chair of the EC Council of Ministers, is to get simultaneous agreement from Farm Ministers on detailed production controls for all major crops, and from the Foreign Ministers on overall spending limits and a new system of cash contributions to Brussels designed to finance the Community until 1992.

Mr Laurits Toernaes, the Danish Agriculture Minister, will present a new compromise today to the other Farm Ministers in an effort to break the continuing deadlock on how to reform the Common Agricultural Policy.

The critical reactions are expected to be those of France and West Germany, whose agriculture ministers last week made it clear they were not prepared to press ahead with reform regardless of the overall budget deal being negotiated in the Foreign Ministers' Council.

But the UK Government has said that a whole system of "stabilisers" in agriculture is an essential part of any budget deal, including precise figures for every crop or product.

The British Government has also begun to float an alternative "clean slate" approach, aimed at reducing existing agricultural surpluses.

This stock reduction plan would relieve immediate budgetary pressures in the community. It would involve member states writing-off existing surpluses, and would operate through their national budgets rather than through the Common Agricultural Policy.

The plan is partly aimed at being fairer to recent community entrants like Spain and Portugal, but may raise concern among smaller member states at the traditional structure of the CAP being by-passed.

The proposal has been advocated as a faster, "clean slate," alternative to the system of stabilisers, or enforceable production ceilings.

Widespread allegations of a Franco-German axis to disrupt the Farm Council have yet to be proved, but both countries have their own reasons for being distinctly unenthusiastic about signing up to an accord.

Next year's French Presidential elections, for example, are widely thought to be influencing the stubborn tactics of Mr Francois Guillaume, the French Agriculture Minister, and there is a growing suspicion that he and Mr Jacques Chirac, the Prime Minister, would prefer President Francois Mitterrand to take the political flak for any EC deal at the Copenhagen summit.

Mr Guillaume last week advanced his own alternative to the European Commission proposals for stabilisers, proposing to penalise farmers initially for excess productivity with a special levy, and only later impose across-the-board price cuts. British calculations suggest the plan would allow an extra 10m tonnes cereal production on top of the proposed 155m tonnes per year maximum currently proposed.

Mr Ignaz Kiechle, the German Agriculture Minister, is conversely determined to avoid price cuts wherever he can, and wants to put more emphasis on the Commission's latest plan for a "set-aside" scheme. This would involve paying farmers to take land out of production and thus grow less, but it is seen in Brussels as being complementary to, rather than a substitute for, price cuts.

If the Farm Ministers fail to make progress on agricultural stabilisers, the Foreign Ministers may well be stymied in putting together a complete budget package for Copenhagen.

Their talks on switching the system of national contributions from a value added tax base, to a more equitable system linked to gross national product, are being resisted by Italy and the Netherlands, both of whom would lose out.

However, any delay in changing the system will leave a continuing problem of the British budget rebate to be resolved, without which Mrs Margaret Thatcher, the British Prime Minister, has made it clear she will block any conclusion.

The farm ministers' talks are expected to last well into the week, while the foreign ministers have been warned they may have to return to Brussels next weekend for a final conclave to prepare the summit scheduled for December 4 and 5.

UK and France united over crisis

BRITAIN and France are united in their desire to secure agreement on the European Community's farm surplus problem at next month's community summit in Copenhagen, Mrs Margaret Thatcher, the British Prime Minister, and Mr Jacques Chirac, the French Premier, *said last night* after talks in Paris, writes Ian Davidson.

But the two prime ministers did not indicate that their talks had led to any material narrowing of their detailed differences over the right way to settle the Community's budgetary and farming crisis.

Mrs Thatcher concentrated her remarks, at a press conference with Mr Chirac, on the importance of dealing decisively with the farm surplus problem.

Two things needed to be settled together: an end to the build-up of new surpluses, and an arrangement to deal with existing ones.

The two premiers said there were no differences between them on the importance of a system of "*stabilisers" or enforceable* production ceilings to control surplus production; but there were still disagreements over the size of the increase in the Community's budget, and over France's support for an oil and fats tax.

But Mr Chirac emphasised the convergence between the two countries, even on farm policy.

"I share completely the British desire to reduce the price of cereals," he said.

Disputes delay UK financial reform

BY CLIVE WOLMAN IN LONDON

THE CRUCIAL date for UK investment firms to apply for authorisation from a self-regulating organisation to avoid being outlawed is now certain to be further postponed, possibly until March.

The main reason for the delay has been the lengthy, complex and often heated disputes between the Securities and Investments Board, which oversees and regulates the SROs, and the five SROs over the contents of the rulebooks.

One leading executive described the relations between board officials and those of the Securities Association, the largest SRO which covers the London Stock Exchange members, as being close to open warfare in September.

Adding to the delays is that all the SROs have now agreed to make substantial revisions to their rulebooks. Other problems have been caused by further amendments to the boards rulebook, which acts as a yardstick by which the level of protection offered by the SRO rulebooks is judged.

In August Mr Francis Maude, the Corporate Affairs Minister at the Trade and Industry Department, laid down a deadline of early April 1988 for the day *when it will* become a criminal offence to carry out unauthorised investment business.

Investment firms' applications for authorisation will have to be approved by then. The board estimated that at least three months would be required after *the closing date for applications* to be processed. Mr Maude, therefore, proposed that the closing date for applications should occur in the first half of January.

The UK Government is resisting proposals for further delays in the date for authorisation, particularly as it had originally planned to bring the Financial Services Act - the legislation responsible for these arrangements - into force in early 1987.

However, none of the SRO rulebooks has yet been submit*ted to the board in its final form* for approval. Even when that hurdle is passed the rulebooks have to be examined by the Director-General of Fair Trading. He is expected to make several criticisms and proposals for amendments to Lord Young, the Secretary for Trade and Industry.

Consequently, the original date for applications to be in, only seven weeks away with the Christmas holiday intervening, is seen as unrealistic.

Investor protection a tortuous affair, Page 12

SAS to launch rival partial bid for BCal

BY CLAY HARRIS

SCANDINAVIAN Airlines System is preparing to launch a partial offer for British Caledonian Group, to compete with the share terms worth £156m ($277.5m) proposed by British Airways *in a full bid made* last week. BCal expects the SAS offer to come this week.

SAS - which is 50 per cent owned by the governments of Sweden, Norway and Denmark and 50 per cent privately owned - is likely to seek a large minority stake in BCal, probably in conjunction with financial institutions. The package would also provide a cash injection for the financially troubled UK airline.

BA has already signalled that it would press for a reference to the Monopolies and Mergers *Commission of any foreign stake* in BCal. Its own modified takeover plans were cleared by the commission earlier this month.

The sharp fall in the cash alternative under BA's renewed offer, reflecting the difficulty of underwriting share issues in the wake of the stock market crash, strengthened the possibility that a serious rival would emerge.

The £119m offer is 46 per cent below the cash terms under the original bid in July. The BCal board and leading shareholders are believed to have found this *sufficiently* resistible to pursue other options, if only to try to prompt BA to raise its price.

Air Europe, the independent airline owned by International Leisure Group, the UK travel company, has also hinted that it *might bid for BCal.*

A key role will be played by Investors in Industry, the venture capital group owned by British clearing banks, which holds 41 per cent of BCal.

It has become clear, however, that the gulf separating BA and BCal from a new agreement concerns more than price. At the very least, Sir Adam Thomson, BCal chairman, is unlikely to repeat his previous public assertions that takeover by BA is still the preferred solution.

The mood at BCal has been *soured by the plans to cut* at least 2,000 jobs from the combined airline - and perhaps 500 to 1,000 more if BA did not regain the BCal licences it has promised to relinquish and then reapply for if the takeover goes ahead.

BA's plan to confine the British Caledonian name to the combined group's charter operations has also raised hackles. This was BA's intention from the start, although perhaps not one shared with Sir Adam before the original agreement was reached in July.

Thatcher against EMS membership

Continued from Page 1

said Britain was free to choose whether or not it supported it.

She drew a distinction between being in a system geared to lines which were publicly known and could be tested and being outside and choosing voluntarily to run the exchange *rate for a period near to one* particular level, although not being constrained and having complete freedom to change.

On the EC, Mrs Thatcher was firm that there had to be enforceable stabilisers. Unless there was binding action to reduce surpluses there would be no progress and no increase in the community's financial resources. Spending would then be decided on a monthly basis as negotiations continued

As an alternative, Mrs Thatcher unveiled the new idea of the "clean slate" approach whereby member states would decide now to write off their existing surpluses. This would be via national budgets rather than through the Common Agricultural Policy. She described this as a "possiblity" which would have the attractions of dealing with surpluses and stopping them piling up again.

MRS THATCHER is considering how the year 2,000 should be marked, possibly via "some special attainment," since there were "not many people who would have the privilege of living through that psychological time," writes Peter Riddell.

She said the year was "a natural target. You have got to use it somehow to raise peoples' efforts and spirits - not that their spirits need raising, but raise their sights to what is attainable."

She said it should be something that "involves everyone, every kind of small town and village. Some will take it as building, some as institutions, some as just raising the environment together, not only cleanliness and everything like that but a kind of beautification." She drew a comparison with replanting trees after last month's hurricane.

Mrs Thatcher said people had to start to prepare for it, "because Heaven knows one might be twanging a harp by that time."

East European trade warning

Continued from Page 1

will be more constrained by slow expansion of export earnings.

The commission points out that it is likely East European countries will have to import more western goods as their domestic economies expand.

Advanced engineering goods, for example, are needed to support the restructuring of industry, which has been given priority in the current five-year plans of all Eastern European countries.

Nonetheless, the commission believes it is unlikely that East European countries will substantially increase their borrowing in the West to finance import demand.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	16	61	Dubrovnik	F	11	52	Malta	F	16	61	Rhodes	C	19	66
Algiers	S	18	64	Edinburgh	F	6	43	Manchester	R	6	43	Rio de J'o	-	-	-
Amsterdam	R	8	46	Faro	S	17	63	Manila	-	-	-	Rome	S	14	57
Athens	S	14	57	Florence	-	-	-	Melbourne	S	19	66	Salzburg	R	4	39
Bahrain	S	28	82	Frankfurt	R	5	41	Mexico City	-	-	-	San Francisco	S	5	41
Bangkok	-	-	-	Funchal	F	20	68	Miami	C	17	63	Seoul	S	15	59
Barcelona	F	11	52	Geneva	R	5	41	Milan	F	10	50	Singapore	F	28	82
Beirut	-	-	-	Gibraltar	S	18	64	Montreal	C	-9	16	Stockholm	C	3	37
Belfast	F	6	43	Glasgow	F	6	43	Moscow	C	-9	16	Strasbourg	R	6	43
Belgrade	R	4	39	Guernsey	C	10	50	Munich	C	5	41	Sydney	S	30	86
Berlin	Dr	6	43	Helsinki	Sn	-1	30	Nairobi	F	26	79	Taipei	-	-	-
Biarritz	C	11	52	H. Kong	Dr	22	72	Naples	S	13	55	Tangier	S	18	64
Bombay	S	33	91	Innsbruck	F	3	37	Nassau	-	-	-	Tel Aviv	S	23	73
Bordeaux	C	15	59	Inverness	F	4	39	New Delhi	S	27	81	Tenerife	S	22	72
Brussels	R	7	45	Islamabad	-	-	-	New York	F	-4	25	Tokyo	S	16	61
Budapest	C	5	41	Istanbul	R	16	61	Nice	F	12	54	Toronto	C	-6	21
B. Aires	-	-	-	Jakarta	-	-	-	Nicosia	-	-	-	Tunis	F	15	59
Cairo	S	23	73	Jersey	R	11	52	Oporto	S	13	55	Valencia	S	13	55
Cape Town	F	21	70	Jo'burg	S	22	77	Oslo	C	2	36	Venice	S	9	48
Caracas	-	-	-	Lima	-	-	-	Paris	C	8	46	Vienna	F	6	43
Casablanca	F	19	66	Lisbon	S	15	59	Peking	C	5	41	Warsaw	C	1	34
Chicago	F	-1	30	London	R	8	46	Prague	F	4	39	Washington	F	-3	27
Cologne	R	7	45	Los Angeles	S	11	52	Reykjavik	S	-3	27	Zurich	C	5	41
Copenhagen	C	7	45	Luxembourg	R	5	41								
Corfu	F	12	54	Madrid	F	6	43								
Dallas	C	12	54	Majorca	F	15	59								
Dublin	C	7	45	Malaga	F	18	64								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Iranian oil exports hit

Continued from Page 1

announced its move in the summer, and Washington enacted its trade embargo four weeks ago, that Iran would not have undue difficulty in finding alternative buyers.

The US, however, has put heavy pressure on other importers, especially Japan, to join the embargo and, although they have not yet done so, they have indicated a willingness to refrain from increasing their purchases.

• Mr Hossein Kazempour Ardebili, Iran's deputy oil minister, said yesterday a consensus was emerging to raise OPEC's benchmark oil price to $20 a barrel, Reuter reports.

The 13-nation OPEC cartel meets in Vienna on December 9 to review the existing pact pegging the benchmark at $18.

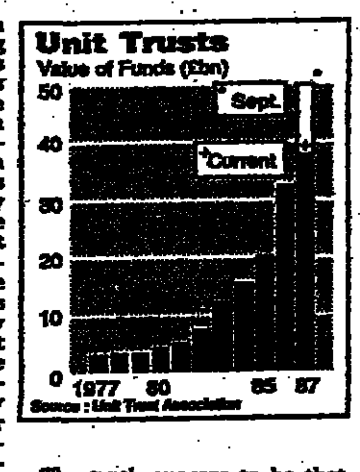
Mr Ardebili said: "We are witnessing a consensus emerging among OPEC members for a higher oil price at the meeting as the dollar's value declines further after the stock market crash."

There were indications that Saudi Arabia and Kuwait were also considering a price increase, he added.

THE LEX COLUMN

Computers on trial

With a national holiday in Japan today, and the US celebrating Thanksgiving on Thursday, *it is likely that trading in the world's* financial markets will continue at its recently subdued pace in the near term. Friday's compromise over the steps to be taken to cut the US budget deficit has been greeted with a healthy amount of scepticism, but the fact that some sort of agreement was finally reached may be sufficient to boost sentiment in the short-term, at least. The markets have been focusing myopically on the outcome of the budget deficit negotiations during the past few weeks, and the sem*blance of* an agreement may mean that the focus of investor concerns *now* switches to debating the prospects for a US recession. So far, the word from Main Street America is less bearish than the message coming out of Wall Street, and in the UK, the latest CBI survey - the first since last month's share price collapse - shows that industrial confidence remains surprisingly strong despite the carnage in world stock markets.



Source: Unit Trust Association

The truth appears to be that insurance is a misnomer, except for those funds which have floors guaranteed by some big US insurance companies (now presumably nursing huge liabilities). The theory that a fund could lock in its equity gains while the market fell, by selling index futures to program traders, overlooked the problem that futures liquidity is likely to be at its weakest when it is needed most. You should not write a fire policy as the flames lick around your ankles.

The program traders, who are supposed to arbitrage between the futures and the underlying stock, were certainly hampered by the NYSE and lack of confidence in the underlying stock prices. However, the partial break in the link between the two markets does not absolve low margin futures trading itself. The low margins encouraged excessive risk, as in 1929, and when a sharp fall began, many big traders had to sell into the main market to meet their committments. And while the Chicago futures trading that did go on failed to match Black Monday's three-fold increase in underlying stock turnover, it was still 1.5 times above the average futures turnover of the previous week.

The buying of those futures usually depended on liquidating underlying stock, at a psychologically sensitive time, kicking the *market further down* and triggering more futures selling by "insured" funds. Portfolio insurers probably only slightly exacerbated the crash. The simple automatic selling systems in the main market certainly did more damage. Nevertheless, those who relied on the smooth operation of the futures market may have swapped a false sense of security for excessive panic. That, at least, is an unrepeatable mistake.

A higher margin requirement is one popular response to the futures problem. However, it would lower liquidity and damagethe *arbitrage function, and* those who persevered in the market would have to liquidate even larger lumps of underlying stock to buy the contracts. If it was purely a speculators' market this might not matter, but it is also used by respectable market-makers to control risk. What might help is higher capital adequacy requirements for futures markets, flexibly linked to size of position and extent of market volatility. That should also be supported by a re-affirmation of one-day fall limits.

The UK market fell even more sharply, partly because it did not have the benefit of substantial corporate share buy-back programmes, which cushioned the fall in the US market, and, perhaps because with less face-to-face dealing, market-makers were more susceptible to herd instinct. But the higher exposure of pension funds to equities must also have had its effect. As long as it is acceptable for pension fund managers with 30-year liabilities to bet huge chunks of capital on weekly *inter-market movements,* no amount of computer plug-pulling will control a sudden shift in sentiment. The lesson of last month's crash seems to be that there is too much investor intervention in short-term asset allocation but not enough in the minute-to-minute decisions dominated by computers and market-makers.

Market regulation

It is by no means self-evident that a 25 per cent decline in equity values over one week is more damaging to the economy than a decline stretched over two years. But although many of the US Government appointees currently deliberating the Crash of '87 *no* doubt believe that the market is now at a more sensible level, the hair-raising journey there is not regarded as a triumph of automatic execution. So, if the behaviour of the market on the way down (as opposed to the way up) *is* defined as the problem, a solution must be found.

To an extent the reintroduction of friction into the market is happening automatically, as futures markets impose higher margin requirements and the price of options and other hedging instruments rise to account for the higher risk. However, the putative re-regulators, casting an envious eye on Japan, are surely right not to trust the markets to stay on their best behaviour.

Computers do not answer *back, but their programmers* certainly do. They insist that computer selling, program trading, portfolio insurance, and low margin futures trading, cannot be blamed for the collapse in most markets outside the US. The Wall Street ripple effect could, in fact, pass on some of that blame, but it does seem illogical to accuse portfolio insurance of not working while simultaneously blaming it for the crash.

Fund managers

One of the best ways to profit from a bull market is to invest in the shares of fund management companies and well-known managers, such as Dreyfus Corporation in the US or Henderson Administration in the UK, which were star performers in the late bull market. By the same token, they have been among the worst performers over the past month. The big fear for UK fund managers is that the collapse in share prices will mark an end of the phenomenal growth of unit trusts which probably provide over half the profits of a typical manager. Although there are *wide variations, between* 50 per cent and 70 per cent of a unit trust manager's expenses are covered by annual fees and the rest comes from sales charges and dealing profits. According to a recent study by Warburg Securities, dealing revenues alone can account for nearly a third of the profits of some firms, which explains why the SIB's recently proposed chages in unit trust operations could not have come at a worse time.

FINANCIAL TIMES
Monday November 23 1987

INTERNATIONAL BONDS

Euroyen sector puts in a good performance

THE EUROYEN market stood out as possibly the most active sector in an overall dull Eurobond market last week, with dealers unable to shake off their obsession with the protracted US budget deficit reduction talks, **writes Clare Pearson in London.**

Prices in the Euroyen sector rallied strongly, partly reflecting the strength of the currency against the dollar and partly the thin supply of paper.

Yet a third factor was needed to push prices as much as ¾ percentage points higher at the short end, and more than a full point at the longer end.

This was an escalation of buying orders from institutions switching out of Japanese government bonds.

The impetus, dealers said, was growing concern about a measure by the Japanese Ministry of Finance, which is due to come into effect next April, to stamp out withholding tax evasion.

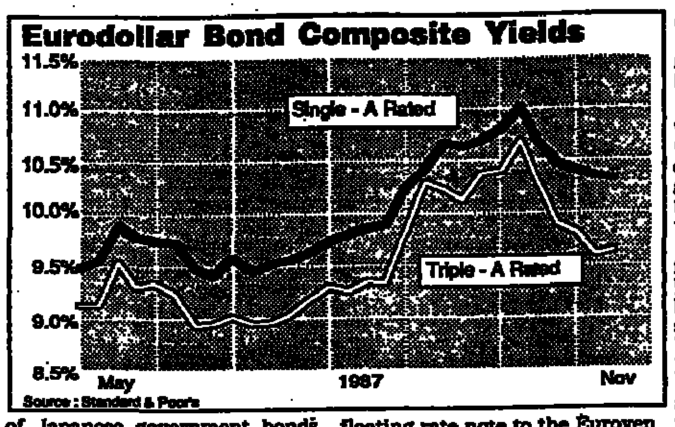
The matter became immensely confused in the market as various versions circulated of what the measure would entail. However, the overall effect was to cause a flight into the Euroyen sector, where the tax position was not in question.

The aim of the change in the tax law is clearly, dealers said, to stamp out "coupon washing" by financial institutions in Japan, which are liable to 20 per cent tax on bearer, though not registered, government bonds.

Until this change, financial institutions in Japan have been able to "wash" bearer coupons by entering into repurchase agreements with tax-exempt institutions, temporarily getting rid of the bearer bond during the coupon payment period.

But dealers said that it was clear that this loophole was to be closed, although the details of the measure and how it was to be monitored were sketchy.

The combined effects of widespread confusion about the change in the taxation position



Source: Standard & Poor's

of Japanese government bonds, and the lack of supply in the market, was to push Euroyen prices up in buoyant trading.

Dealers said the market was now ripe for a new issue and on Thursday hopes were running high that Belgium had decided to transfer at least part of its projected refinancing of a $400m floating rate note to the Euroyen sector.

In the event, all that emerged was a Y20bn bond for the Mortgage Bank of Denmark.

The Eurosterling market was similarly buoyed up by currency strength and lack of recently issued paper, and prices rallied by around 1 percentage point during the week.

A recent £250m 10-year deal for Barclays Bank was trading buoyantly at less 1½ bid.

But the only new issue to emerge was for Northern Telecom, the Canadian telecommunications company. As with Mortgage Bank of Denmark's deal, the market was disappointed with the borrower's name.

However, dealers agreed it was fully priced. Baring Brothers, the lead-manager, said the terms had been decided after lengthy consultations with itself and Warburg and Merrill Lynch, the co-lead managers.

Baring Brothers' bid on Friday afternoon was at less 1.80, just within fees.

Elsewhere, the Ecu sector was attracting some attention as recent falls in West German interest rates had widened the yield gap between D-mark and Ecu bonds to some 250 basis points. However, only two new issues emerged, both clearly destined for Japanese placement.

EUROCREDITS

Fecsa deal triggers swift return of Spanish

SPANISH BORROWERS are wasting no time in gaining access to the international loans market now that a preliminary agreement has been reached to restructure the debt of Fuerzas Electricas de Cataluna (Fecsa), the Barcelona-based electrical utility, **writes Stephen Fidler in London.**

The market has been effectively closed to them since Fecsa's problems came to light early in February and even though Fecsa's bank steering committee was not due to meet until today to discuss the debt restructuring plan, another utility, Hidro-Electrica Espanola, has decided the time is ripe to tap the market for $200m.

However, as could have been expected, it is paying substantially more than it would have done a year ago to raise the funds.

Manufacturers Hanover is arranging the six-year new money facility, which carries a four-year grace period. The margin being paid is ½ percentage point over interbank rates, at least double what it would have paid last year at this time.

Elsewhere in the loans market, the rush among companies to arrange those flexible financings known as multi-option facilities continued.

UK companies have been quick to tap this market. According to figures from National Westminster Bank - by a large margin the leading bank in the business as far as UK borrowers are concerned - more than £19bn in syndicated facilities were arranged for the UK private sector in the first nine months of this year.

With the bond and equity markets effectively closed for the moment as a source of new funds, the multi-option facility is coming into its own and many more are in the wings. "It's a switch back to banking," said one enthusiastic banker last week.

But it is by no means a British preserve and the French are catching on to the idea. Two facilities, both with five-year maturities extendible to seven, were launched late last week, a $300m financing for Snecma, the state-owned aero-engine company, and one for FFr 1.5bn loan for Havas, the advertising and media group.

The Snecma deal, for which Bankers Trust, Indosuez, Paribas, and Barclays have been mandated, looks very aggressive, even though it probably will not be drawn and the borrower is state-owned.

There is a facility fee of 4 basis points and a margin of 10 basis points over Pibor for domestic French francs and Libor flat for Eurocurrencies.

The utilisation fee is 2 basis points for up to 50 per cent usage over a three-month assessment period and 6 basis points if over half used.

The Havas deal, being led by Societe Generale, with Credit Agricole and Credit Lyonnais, carries a 12.5 basis point margin and a 5 basis point fee if over half drawn.

In the UK, Mr Rupert Murdoch's News International is looking for a £250m revolving credit over five years and has mandated Midland Bank to raise it.

The margin is ½ percentage point over Libor plus reserve asset costs, with a commitment fee of ⅛ points.

A three-year facility for Union Carbide, the US chemical group, being arranged by Chemical Bank, was increased to $350m from $250m.

Daiwa Bank's London branch is raising a $100m five-year revolving credit, with a tender panel facility to issue certificates of deposit. The margin on drawings is 5 basis points, the facility fee 5 basis points and a utilisation fee if over half drawn of 5 basis points.

In the Eurocommercial paper market, C. Itoh (Finance) arranged a $130m facility through Manufacturers Hanover, and Hafslund of Norway a $100m programme through Warburg.

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	1.3	0.8	35.0	5,214.6
Prev	214.4	3.3	78.0	4,975.5
Other	2,960.4	1.9	1,747.6	705.4
Prev	543.0	270.6	0.0	128.1

Secondary Market

	Straights	Conv	FRN	Other
US$	21,213.0	1,646.4	8,736.8	6,498.3
Prev	23,740.8	1,610.7	12,057.3	7,309.2
Other	23,013.3	1,133.8	5,301.8	23,086.9
Prev	24,380.2	1,185.0	7,323.8	24,316.7

	Cedel	Euroclear	Total
US$	12,183.0	31,163.2	43,346.2
Prev	15,009.2	34,980.0	49,989.2
Other	22,273.1	35,676.0	57,949.1
Prev	23,357.4	34,790.0	58,147.4

Week to November 19, 1987 Source: AIBD

TCPL lifts stake in Encor

By Robert Gibbens in Montreal

TRANSCANADA PipeLines has raised its interest in Encor Energy, the former Dome Canada, to 10.6 per cent through market purchases, but says it will not raise its C$8.75 a share bid despite rumours of a counter-offer.

A week ago TCPL, controlled by Bell Canada Enterprises, Canada's largest private sector company, said it would seek 100 per cent of Encor, potentially for more than C$850m ($648m), allowing for its existing minority holding. Encor refused, saying the bid was too low.

Dome Petroleum, which owns 42 per cent of Encor, declined to tender for the same reason. In the same week Amoco Canada Petroleum got agreement from most of the secured creditors to buy Dome Petroleum for C$5.5bn, up C$400m from last April. TCPL made a competing bid for Dome Petroleum last spring but was rejected.

Amfac replaces chief as part of restructuring

By Louise Kehoe in San Francisco

DIRECTORS of Amfac, the property, agriculture and food distribution conglomerate, dismissed Mr Ronald Sloan as president and chief executive at a board meeting in San Francisco on Friday at which plans for restructuring the company were presented.

Mr Sloan was replaced by Mr Henry Walker, the chairman who as chief executive from 1967 to 1973 presided over the diversification of the company from its roots as one of Hawaii's "big five" land owners.

WEST GERMAN BONDS

Dollar eclipses fear of withholding tax

BY HAIG SIMONIAN IN FRANKFURT

BARELY SIX weeks ago, who could have imagined that foreigners would so keenly be buying the DM 2bn issue of German Federal Government bonds (Bundesrepubliks) launched earlier *this month?*

Then, with the shock of a new 10 per cent withholding tax from 1989 ringing in dealers' ears, the market was expecting foreigners to desert government bonds *en masse.*

Instead, Bunds seem as popular as ever. The world stock markets crash has played a part, increasing the appeal of fixed-rate paper around the world.

But it is the fall in the US dollar which has really brought the foreigners back to such traditional havens as German government bonds.

"Withholding tax has become a non-issue," says Mr Dieter Wermuth, head of portfolio management and research at Manufacturers Hanover in Frankfurt.

"No one talks about it any more. The tax will not come into effect until 1989 anyway, and people are buying bonds nevertheless."

However, many of the other predictions made in early October about likely changes in the D-mark bond market have come about. Yield relationships between Bundesrepubliks and D-Mark Eurobonds (which will mainly escape the tax) have narrowed, as expected.

From 20-25 basis points before, D-Mark Eurobonds have approached and, at times, traded through, equivalent domestic issues.

On Friday afternoon the latest 6⅜ 10-year Bund issue, priced at 100½, was yielding 6.26 per cent against 6.25 per cent for the World Bank's 6¼ per cent 10-year D-Mark Eurobond issued in July.

But the narrower spread has not meant that borrowers have deserted the domestic market in favour of D-mark eurobonds, as many had expected. That may come later, but in the short term, new D-mark eurobonds have been few and far between since withholding tax was announced.

There are plenty of reasons, aside from the turmoil in international markets. For a start, six weeks after word about the new tax first slipped out, German bankers are still uncertain as to *how it will apply.*

Issues by non-German borrowers will not be affected. But it remains only an assumption that bonds from German borrowers' foreign subsidiaries will not be affected until the finance ministry comes up with a firm ruling.

As a result, borrowers and investors have held back. The Japanese reaction is particularly telling; there have been no issues by Japanese lead managers since the first two ground-breaking deals on October 1.

Last month, Nomura told the securities arm of a leading German bank in Tokyo that it would buy no more D-mark eurobonds until the withholding tax issue was clarified.

Difficulties on the swap side have also dampened the market. "Issues depend very much on the swaps at the moment," says the syndications head of a leading US investment bank in Frankfurt. "It's not been possible to bring a decently-priced deal which would trade within fees."

Most important, downward interest rate expectations have persuaded many borrowers to bide their time. "Everyone is waiting. A discount rate cut is very likely at the next meeting of the Bundesbank's council," the syndicate manager says.

While D-mark eurobonds sit it out, will the present unexpected boom in Bunds last? "They are a safe haven in troubled times," says Mr Giles Keating, of Credit Suisse First Boston in London. "In the short term, it all depends on the value of the dollar," says Mr Ernst Drayss, an analyst with Deutsche Bank in Frankfurt. "If the dollar weakens further this week, the Bund market will turn friendlier."

It would only take a fall of slightly less than 1 pfennig in the dollar: D-mark exchange rate to wipe out the yield gain.

No wonder foreigners are buying Bunds,

INTERNATIONAL CAPITAL MARKETS & COMPANIES

David White on the prospects for Spain's first big bank merger

Bilbao measures up to its EC rivals

BANCO DE Bilbao has overnight become the prime mover in Spain's banking scene. Since its surprise announcement last Thursday of merger talks with the larger Banco Espanol de Credito (Banesto), any doubts about its determination as a suitor have disappeared, and the Spanish stock market is bracing itself for the spectacle of its first large bid.

Advised by Salomon Brothers, Bilbao has made clear it is ready if necessary to mount a hostile bid for enough shares - 25 or 30 per cent - to take effective control of Banesto and set about building a Spanish banking group capable of measuring up to EC rivals.

Mr Jose Angel Sanchez Asiain, the Bilbao chairman, has explicit government backing for the move. In top Socialist administration circles, it has often been considered that he could take on something bigger.

The first of a new, technocratic breed of bank chiefs - he took over 13 years ago, when he was only 45 - he is described by Mr Felipe Gonzalez, the Prime Minister, as "one of the best-ordered brains in the business."

His argument in favour of greater size is in tune with thinking in the government, which sees a need for universal banks able to meet the challenge of foreign competition and the liberalisation of capital movements in the EC. Under its entry terms, Spain will lift its remaining restrictions on EC banks' activities after 1992.

Not since the late 1960s, when Spain was in the midst of an industrial boom but still had a very unsophisticated financial sector, have two large banks been in active courtship. Then it was Banco Hispano Americano and Banco Central. Now it is the turn of the other two of the four biggest banks to take the floor, with Bilbao leading an initially uncertain partner in the bulky shape of Banesto.

Marriage rumours have always abounded. But although the industry has become increasingly concentrated - thanks mainly to the failure of dozens of smaller banks between 1978 and 1983, most of which re-surfaced as subsidiaries of the main groups - the big seven banks have kept to their bachelor ways.

The Hispano-Central talks failed, mainly because the Franco regime preferred to maintain a divide-and-rule system.

Two other factors have since stood in the way of big-bank mergers: traditional rivalries and the problem of what to do with already outsized branch networks. According to the Spanish Banking Association, Spain's 16,000 commercial bank branches at the end of 1984 were more than in the UK, and the sector's 169,000 employees roughly the same as West Germany. Banesto alone had about as many branches as there were in the whole of Denmark.

The entry of more cost-efficient foreign banks has increased the need for downscaling. But the main Communist and Socialist trade unions are both strongly implanted in the sector, and are preparing for a joint front against job cuts resulting from a Banesto-Bilbao merger, which they fear could affect 14,000 employees, a third of the total in the two groups. The political difficulty of making drastic cuts may well impede, or at least delay, the integration of the groups' Spanish retail banking activities.

In other spheres, however, Bilbao sees the bigger bank as complementing its own strengths. In particular, Banesto, up to now the least international of Spain's banks, has a natural partner in the Basque institution, which opened branches in Paris and London during the first world war - before it opened in Madrid - and now has 22 full foreign branches, mostly in Europe, against the two which Banesto has in the US.

Banesto's initial reaction has been to keep its distance but not to reject Bilbao's overtures. Mr Jose Maria Lopez de Letona, the former Bank of Spain governor who was brought into Banesto last year and is due to become chairman next month, has never advocated big bank mergers, arguing that "efficiency is not necessarily a question of size." On the other hand, financial analysts question Banesto's capacity to organise an effective counter-bid.

Since last year, Banesto has been through a recovery programme after a crisis at one its subsidiary banks, Garriga Nogues, a series of top management changes, and the recent arrival of two new powerful shareholders, businessmen Mr Mario Conde and Mr Juan Abello, with about 5 per cent between them and seats on the board. These two men's attitude will be crucial.

For the Spanish financial community, this is not just one unprecedented bid but the beginning of a merger process expected to affect other banks and insurance companies. Since it usually takes two to make a marriage, and since there are seven big banks, the bets are now being laid on which one will be left out.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Toyota Motor Credit‡	200	1990	3	9	101.175	Morgan Stanley	8.540
Nordic Inv. Bank(a)‡	150	1997	10	9⅝	99.60	Salomon Brothers	9.923
Yukong Ltd. (d)§‡	50	1995	8	⅛	100	First Chicago HK	-
D-MARKS							
Ireland‡	300	1995	7	6⅛	100	Commerzbank	6.125
SWISS FRANCS							
OKB‡	200	1997	-	5	100¾	SBC	4.952
Copenhagen Telephone‡	64	1992	-	4¼	100	Kreditbank (Suisse)	4.250
NTT**‡	200	1994	-	4⅝	100¼	UBS	4.622
A'pistas del Atlantico‡	50	1997	-	5¼	100	Bqe Indosuez(Suisse)	5.250
Norsk Hydro**‡	100	1994	-	4¾	100	SBC	4.750
STERLING							
Northern Telecom‡	60	1992	5	9¾	100⅛	Baring Brothers	9.652
ECUs							
LTCB of Japan‡	100	1994	7	8⅝	101½	Nippon Cre.Bank	8.406
IBJ Finance‡	100	1993	6	8⅝	101¾	IBJ Int.	7.996
LUXEMBOURG FRANCS							
Allied Irish Banks**‡	300	1992	5	7⅝	100	Bqe Paribas(Lux)	7.625
Kemira Oy**‡	300	1992	5	7¾	100⅜	Sogenal	7.657
World Bank (b)**‡	900	1992	5	7½	100½	BIL	7.377
FRENCH FRANCS							
BFCE‡	900	1992	5	11½	105.80	BFCE	9.971
BFCE‡	100	1992	5	11½	107.32	BFCE	9.509
YEN							
World Bank (c)‡	50bn	1997	10	5⅝	101⅛	Nomura Secs.	5.477
M'gage Bk of Denmark‡	20bn	1992	5	5½	101¾	Daiwa Europe	5.095
IMI Bank Int. (e)§‡	10bn	1993	5	55bp	100¼	LTCB Int.	-

‡Not yet priced. §Floating rate note. **Private placement. (a) Launched on US domestic market. (b) Launched in three separate tranches. (c) Daimyo bond. (d) ⅛ over 6m Libor. (e) 55bp under Japanese long-term prime rate (semi-annual). Note: Yields are calculated on AIBD basis.

Hong Kong toymakers hit by WOW

By Kevin Hamlin in Hong Kong

FIVE PUBLICLY quoted Hong Kong toy manufacturers are facing heavy losses as a result of their exposures to Worlds of Wonder (WOW), the beleaguered US toy company.

The five companies are owed a total of more than US$40m by the one-time high flyer of the US toy industry.

Kader Industrial, which is owed US$5.3m, has confirmed that its exposure will plunge it into the red this year. WOW accounts for about a third of Kader's sales.

General Electronics, which has the largest exposure at US$22m, said its forecast profit of HK$116m for the year to March would be "significantly and adversely affected." WOW absorbed more than 70 per cent of General Electronics' sales last year.

Two other afflicted companies - Applied Electronics and Universal Appliances are owed US$2.5m and US$5m respectively. Wong's Industrial, meanwhile, says its exposure to WOW will have a negligible impact.

WOW executives have offered the Hong Kong companies equity in lieu of cash, but no price has been agreed.

Paris studies ways to protect shareholders

BY PAUL BETTS IN PARIS

THE FRENCH government is attempting to revive popular interest in its ambitious privatisation programme, seriously interrupted by the stock market crisis, by studying new ways to protect small shareholders.

Mr Edouard Balladur, the finance and economy minister, has asked his advisers to draw up technical proposals to help attract support for future privatisations. Small shareholders, 6m of whom jumped aboard the privatisation bandwagon, have become increasingly jaded since the stock market crash.

Mr Balladur has so far made a vague proposal of introducing what he calls a "system of convertiblity." His advisers suggest this could involve either the use of convertible bonds or a novel system of convertible shares for future state sell-offs.

While convertible bonds have become increasingly common and popular, the concept of a share convertible into a bond has so far never been tested before in France - nor, for that matter, anywhere else.

But officials acknowledge that, however tempting the new convertible share concept may be, it is unlikely to be adopted by the government.

Three-fold profits rise for Saga Petroleum

BY KAREN FOSSLI IN OSLO

SAGA PETROLEUM, the Norwegian independent oil company, has experienced a three-fold increase in its operational result in the third quarter to NKr136m ($21.2m) from NKr45m in the same period last year. The increase was due primarily to the positive development of oil prices and to earnings from increased oil production, which come as a result of production from the new Gullfaks oil field in which Saga has a 6 per cent interest.

Saga posted slightly lower profits of NKr340m, before extraordinary costs, for the first nine months of the year compared to NKr380m. It says that it expects year-end result to be NKr400m, falling short of the NKr537m which it achieved at the end of 1986.

Plans for its $75m-100m convertible Eurobond offering could be postponed, however, should a positive development in the fledgling Norwegian oil company's share price fail to materialise.

At the last board meeting held at the end of October, Mr. Einar Falck, the chairman, said that Saga's share price must stand at around NKr150, if the convertible Eurobond offering is to be made.

Mixed results for long-term banks

BY IAN RODGER IN TOKYO

THE PERFORMANCE of Japan's three long-term credit banks was mixed in the six months to September 30.

Industrial Bank of Japan, by far the largest of the three, reported a strong 8.3 per cent rise in its so-called limited pre-tax profit, which excludes earnings from bond trading and securities operations, to Y63.7bn ($469m) but only a 4.6 per cent increase in pre-tax profits to Y87.1bn.

Similarly, **Long-Term Credit Bank of Japan,** the second largest, said its limited recurring profit was up 17.6 per cent to Y50bn, but its pre-tax profit dropped 3 per cent to Y47.3bn.

Nippon Credit Bank reported a 41.5 per cent drop in limited recurring profit to Y10.6bn, though pre-tax profit was 20.1 per cent higher at Y28.9bn.

The banks said lending expanded sharply in the early summer as borrowers rushed for long-term loans in advance of a rise in the long-term prime rate on August 1. LTCB said its improved profit was due to rapidly growing revenue from domestic long-term lending, reduced funding costs and a constant growth in profits from international operations.

● **Bank of Tokyo,** the specialised foreign exchange bank, managed a 1 per cent rise in pre-tax profits to Y46.5bn in the six months to September 30. Net profit rose 2.4 per cent to Y23.1bn.

TAX PLANNING

Use of computers put in question

THE USE of computers as an aid in international tax planning has been thrown into question with the launch of rival products by two large international accountancy firms.

Touche Ross today launches a computer-aided tax planning system in 20 countries. It claims that its system, called Expert World Tax Planner, can calculate the ideal corporate structure for a group with subsidiaries in up to 50 countries - an advance on the 10 handled by an earlier version.

Meanwhile KPMG, the world's largest accountancy firm, has turned its back on the idea of a mechanised approach. It says that the cost of such a method, based around a database of tax information, far outweighs any benefit to be gained from it. The computer-generated advice is unlikely to be sufficiently precise, it says.

KPMG has opted instead for a common methodology, or "kit", to be used on international assignments by tax experts in each country.

To get around the problems associated with the datebase approach, Touche's new system relies on help from experts to guide it. For instance, corporate and withholding tax rates recorded in the system can be amended to suit the circumstances of a particular company.

It could also be cheaper for clients. "I would assume that it means some savings in fee, since most of our costs are time," said Mr Terry Browne, who developed the system.

Under the KPMG approach, selected areas of the business are subjected to a review to assess their tax effectiveness and how they relate to the centre.

The benefits of this are examined before moving on to analyse other areas - helping to keep fees under control.

Richard Waters

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.69	6.69	7.05	11.36	5.88
Three-month Treasury bills	5.72	5.92	5.38	7.17	5.83
Six-month Treasury bills	6.25	6.40	6.00	7.45	5.30
Three-month prime CDs	7.15	7.20	7.42	8.25	5.70
30-day Commercial Paper	6.48	6.65	7.00	7.70	5.75
90-day Commercial Paper	6.76	6.75	7.50	8.85	5.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk.	Yield	1 week ago	4 wk. ago
Seven-year Treasury	[illegible]	—	8.50	8.69	8.87
20-year Treasury	NA	—	NA	9.18	9.21
30-year Treasury	[illegible]	+1	8.84	8.95	9.11
New 10-year A Financial	NA	NA	9.47	9.88	10.05
New AA Long utility	NA	NA	10.12	10.13	10.45
New AA Long industrial	NA	NA	10.05	10.00	10.35

Source: Salomon Bros (estimates).

Money supply: In the week ended November 9, M1 fell by \$3.7bn to \$759.1bn.

US MONEY AND CREDIT

Modest measures; modest reaction

A MONTH after the stock market crash flattened every assumption about the direction of the US economy, the US credit markets are still not willing to make any guesses. Rather than shuffle notes and bonds, the markets spent the whole of last week listlessly watching the only show around: a long and over-acted drama, set in Washington, to do with cutting the federal budget deficit.

In the manner of such dramas, the congressional negotiators produced agreement just before it was too late and the credit markets staged something of a rally around Friday lunchtime. Interest rates came down across the board. The price of the Treasury long bond climbed back up to trade over par, where it yielded 8.84 per cent. It was a modest reaction to a modest set of measures.

The negotiators in Congress and the White House might have saved their breath, for all that their four weeks of talk produced. The cut in this year's deficit of \$30bn is little deeper than the automatic cut of \$23bn that would have happened anyway under the *Gramm-Rudman-Hollings* law.

The credit markets have known for a year that the US has a serious problem: demand vastly exceeds the pool of domestic savings and must be financed by skittish overseas markets. It is hard to see how \$30bn here or there makes any difference to the fundamental demand problem, whether the economy is strong or is weakening.

Friday's improvement in bond prices and the dollar exchange rate had little to do with the actual cuts in spending or increases in revenue. The reaction was one of relief that a package, any package, was agreed and that the Gramm-Rudman sword remained sheathed.

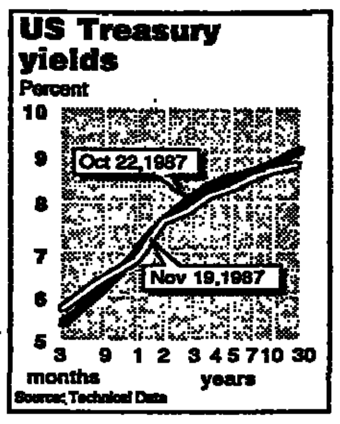
Automatic spending cuts would have signalled to overseas creditors that the world's greatest democracy was incapable of allocating even the smallest measure of austerity to tackle the crisis in its external account. Such a show of political incapacity might have caused a capital flight, with consequences that have become all too easy to predict. Interest rates would rise to curb demand and increase savings, and asset values would be marked down to bargain levels through a devaluation and/or a stock market fall.

The markets were so relieved on Friday that they became almost confident. There was a lot of talk of help from overseas. "The US has set a precedent in disciplining fiscal policy," said Mr David Jones, money market economist at Aubrey Lanston. "Perhaps Germany and Japan will give us some easing in monetary policy."

Expectations are running so high of a meeting of Group of Seven finance ministers that Mr James Baker, the Treasury Secretary, had to remind people that the budget deal had not even been approved by the full Congress or signed by the President.

The credit markets are still hoping that a recession will pull down interest rates without a second dose of October's medicine. But there is little hard economic fact for the markets to work with. The economic figures for October cover 18 days of a period which now seems remote - B C, or before the crash, as it is known.

Economists such as Mr Philip Braverman, at Irving Securities, are finding evidence that the crash has rattled consumers. "There are already scattered signs that the stock market break dampened consumer spending more than had originally been thought," he says. "Department store sales in the first half of November were disappointing. Sales of some expensive imported cars have dropped sharply."



Mr Braverman is waiting for this week's reports on durable goods orders and consumer spending in October to confirm that the economy is slowing down.

But commodity markets are wildly signalling the opposite. The Commodity Research Unit's futures index crept up two points last week. Copper prices are rising and there is good demand for aluminium and nickel. Orange juice and coffee are strong. There is, it seems, a raging bull market in oats.

As for consumer spending, there does not seem to have been a let up in credit card use and the stores are preparing for christmas with their usual excess.

What is clear is that the economy was very strong before October 19. All the vital signs - producer and consumer prices, retail sales, trade and industrial production - show an economy that was pressing hard at the edges of its capacity, according to Mr David Hale and Mr John Silvia of Kemper Financial Services in Chicago. According to their analysis, bond yields would now be over 11 per cent if the stock market had not crashed.

The crash itself was a belated but sudden recognition that a humming economy would not solve the trade deficit: monetary restraint was needed. In a bleak comment on the state of the US economy, the two men write: "The new 'lean and mean business strategy' celebrated by the business media during recent years may simply represent a form of corporate anorexia, which will make it difficult to reduce the trade deficit unless domestic demand is restrained through tighter fiscal and monetary policy."

There is an unpleasant thought for the credit markets. If the economy was so strong before the crash, perhaps it is still strong now. In that case, the easy monetary policy of the post-crash period could well overheat the economy next year.

James Buchan

UK GILTS

Interest switches to next G-7 meeting

THE GILT-EDGED market was in a state of suspended animation last week as it, along with all other financial markets, focused on the talks in Washington to reduce the US budget deficit.

Yields at the long end finished the week at around 9.26 per cent, virtually the same level as a week before.

Prices weakened late on Friday as news of agreement in Washington boosted the equity market and that may well provide an indicator for this week, especially if shares take cheer from the agreement and the dollar looks firmer on the foreign exchanges.

It seems likely that gilt market interest will now focus on when the Group of Seven will meet. Indications late last week were that the meeting might be later than sooner.

If an eventual G7 agreement brings a round of interest rate cuts, bonds are likely to benefit. But that remains an if. It looks as though suspense is likely to be another key factor in the market as it waits for G7.

Last week, European finance ministry officials were attempting to lower expectations created by Mr Nigel Lawson and Mr Edouard Balladur of an early G7 meeting. If reports over the weekend prove correct, Mr James Baker does not appear to be in any hurry either.

The UK public sector borrowing requirement and money supply numbers released last week provided a (short-lived) respite from the dithering in Washington. On one level they indicate an easy time for the authorities in the last five months of the financial year.

Up to the end of October the authorities were under-funded by £3.8bn. This is composed of the following. Net gilt sales to the UK non-bank sector in the seven months of this financial year have been negligible; the PSBR is in deficit by £500m, and the net external contribution to the funding requirement (foreign exchange market intervention, less gilt sales to overseas investors) left the Bank with about £3.3bn of liquidity to "sterilise".

Allowing for redemptions of about £1.7bn, gilt sales of the order of £4.5bn are implied during the rest of the financial year. But because of the relaxation of the full-funding rule, the Bank is under no pressure to sell this amount and, given the trend in the PSBR, gilt sales could be less.

The outlook for the PSBR is very good. It now looks likely that the Government can achieve a balanced budget for the first time since 1969/70, or perhaps a surplus. Mr Robert Thomas at Greenwell Montagu believes a surplus on the PSBR of £1bn is possible by the end of the financial year.

The seasonal trend in the PSBR during the last five months of the financial year to move into surplus should also ease the authorities' gilt sales task in itself. Assuming no further heavy intervention in the foreign exchange market, the Bank seems likely to have a very modest funding requirement for the remainder of the year.

All other things being equal this should be good news for the gilt market. It is - yet other, more negative, factors seem to be taking precedence. Some are external; some are domestic.

With a resolution to the US budget deficit negotiations, the market's interest will now switch to the implications of a G7 meeting. Many are cynical over what such a meeting could do in policy terms.

If a co-ordinated cut in interest rates is the next step, some economists in the market believe it may be short-lived, as far as the UK is concerned, and that all it might do is lead to a steepening in the yield curve as most of the movement in interest rates will be at the short end.

This is because monetary growth is still rapid. Sterling M3 is growing in excess of 20 per cent a year, even taking into account special factors and the changes to seasonal adjustment. M0 is growing at an annual rate of 5.5 per cent, which is near the top of its 2-6 per cent range.

The market also shares the Bank of England's concerns about the rapid growth in real wages, and expects to see a tightening in monetary policy if stock markets begin to show a sign of stabilising. (This would be especially so if interest rates were reduced for "political" reasons.) Although inflation forecasts have been scaled down to take account of the stock market crash, inflationary pressures still remain a concern.

For this reason, a reduction in interest rates after a G7 meeting might represent the end of the downward movement in interest rates. The gilt-edged market, which believes bank base rates at 9 per cent is an appropriate level, would then be in the position of waiting for the signs of a reversal in policy.

Simon Holberton

Chief US statistics due out this week

The market will be watching this week's economic statistics with close interest. Here are the chief figures due for release, together with the consensus of forecasts by economists surveyed by Money Market Services of Redwood City, California.

- **Third-quarter real GNP, due for release on Tuesday at 8.30am. The revision is expected to show the economy growing at a rate of 4 per cent in the third quarter, after an increase of 2.5 per cent in the second quarter.**
- **Durable goods orders in October, due for release on Wednesday at 8.30am. These are expected to have declined by 0.3 per cent after a 1.8 per cent rise in September.**
- **Personal income and consumption in October, due for release on Wednesday at 10am. The consensus expectation is for a 0.7 per cent increase in income and unchanged outlays.**

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]				

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. Closing prices on NOVEMBER 20

Mountleigh takes Norwegian option

BY KAREN FOSSLI IN OSLO AND CLAY HARRIS IN LONDON

Mountleigh, the property and investment group, has taken an option on a 63 per cent stake in *Bugge Eiendom, the financially* troubled Norwegian property company. It plans to help Bugge to arrange the orderly disposal of some of its assets.

Mr Tony Clegg, Mountleigh chairman, said yesterday that his company could exercise the option without cost. The shareholding's proportion of the proceeds of subsequent property disposals - which could reach £50m to £60m - would be split evenly between Mountleigh and the former Bugge shareholders.

He made clear that Mountleigh was not launching a financial rescue - only contributing its expertise to help Bugge avoid forced sales of its property assets in Norway, Denmark and the UK, including some in London's Docklands. Bugge recently put a £28.5m value on its UK property.

Mountleigh itself was unlikely to be in the market for any of the properties, Mr Clegg said. It has 28 days to decide whether to exercise the options.

Bugge ran *into liquidity* problems earlier this month after investors shunned a NKr155m (£13.6m) rights issue. Shortly afterwards, Mr Niels Bugge, managing director and major shareholder, and Mr Arild Nedrum, the second largest shareholder, withdrew from the company until further notice, but retained participation in board business.

Bugge owes between NKr1.3bn and NKr1.4bn to Norwegian creditors including Christiania Bank, Bergen Bank, Finanshuset and Storebrand. It also has an *outstanding UK debt of* NKr200m.

So far only about NKr28m has flowed into the company's accounts from the rights issue. The company's auditor has yet to verify a pro forma balance sheet for "the year to date."

Bugge is believed to be hard pressed to honour its loans because many were secured against Norwegian share investments, which have fallen heavily in the past month. It also holds shares in UK companies, including Land Securities, and a majority stake in Jacksons Bourne End.

Bugge's financial problems were compounded by the advice of Mr Svein Aasmundstad, director of Norway's Securities and Exchange Commission (Kredittilsynet), that small shareholders should withhold subscription payments until more was known about the company's solvency position.

Mr Carl Hambro, legal adviser to Bugge, has advised its main creditors to identify a number of unknown commercial paper holders in the company. He has also demanded that the company's three major shareholders, Mr Bugge, Mr Nedrum and Ms Tove Songstad, provide details of their financial positions and issue promissory notes to cover their obligations.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of *considering dividends. Official indications are not* available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- BET, Chamberlain Phipps, Crown Eyeglass, Delmar Group, EMAP, Fairbriar, Freshbake, Flexmoss, Sekers International.
Finals- Carroll Industries.

FUTURE DATES

Interims-	
Birmingham Mint	Dec 1
Carless Capel & Leonard	Dec 3
Coalite	Dec 3
FKI Electricals	Nov 25
Warburg (S.G.)	Nov 25
Finals-	
Anglo Irish Banking Corp	Nov 24
Circaprint	Nov 30
Hawthorn Leslie	Nov 30
Lexicon	Dec 4
VPI Group	Dec 7

Ifincorp in US talks to rally bid support

By Clay Harris

Ifincorp Earl, the investment bank handling the Benlox demerger bid for Storehouse, the retail group headed by Mr Terence Conran, has held discussions in New York with Shearson Lehman, financial backers for Mountleigh's abortive *bid in September.*

Mountleigh holds three per cent of Storehouse, and the meeting was one of several with US-based shareholders or their advisers in an effort to rally support for the bid. The Benlox side denies, however, that arranging any sort of cash support for the all-paper bid was seriously discussed.

Benlox and Ifincorp Earl have tried to scuttle speculation that they will be forced to introduce a cash element if they have any hope of winning the day.

In dealings late last week, Schroders Investment Management bought 15,000 more Storehouse shares at 263p to raise its holding to 2.59 per cent.

FT Share Service

The following securities have been added to the Share Information Service:

American Plastic Technologies (Section: Chemicals); Anglo Leasing (Banks, HP); BASF AG (Chemicals); Lloyd Thompson (Insurance); MagnaCard (Industrials); Morrison (Wm.) 5¼ per cent Cum. Red. Cnv. Pref. (Foods); Pacific Gas & Electric (Americans); Press Tools (Industrials); RKF Group (Industrials); Shaftesbury (Property); Tomorrows Leisure(Third Market).

Clive Wolman on the implications of Guinness's High Court challenge

Panel powers diminished on de-listing

Guinness's High Court challenge to the Takeover Panel's ruling that it formed an undisclosed concert party during its takeover battle for *Distillers last* year has highlighted a crucial respect in which the Panel's powers have been diminished by last year's Financial Services Act.

In the past, one of the *few* tangible sanctions that the Panel has wielded to enforce compliance with its rulings has been the threat of de-listing. The shares of a recalcitrant company could be removed from the Stock Exchange list, thus preventing *any on-market trading.*

The threat has rarely been used and when it has the chief victims have often been the innocent shareholders, as in the *case of Mr Jim Raper's Saint* Piran company, which also arose out of a finding by the Panel that a concert party existed.

Now however, the Financial Services Act restricts the power of the Stock Exchange to de-list non-compliant companies, according to one prominent official in the Trade and Industry Department (DTI) who was involved in its drafting.

In the past the Stock Exchange had a wide area of discretion to de-list companies for almost any reason it considered appropriate. But that discretion has been specifically limited by the provisions in Part Four of the Act *introduced in response to European* Community directives.

Under section 145 the Stock Exchange Council can de-list securities only if it is satisfied that there are special circumstances which preclude normal regular dealings in those securities. By defying a ruling of the Takeover Panel, Guinness would not be precluding such dealings and therefore its shares could not be de-listed.

Stock Exchange staff argue that the Council has a wider discretion to suspend, rather than to cancel, the listing of any shares in accordance with its listing rules. Those rules say that *great importance is attached to* observance of the Takeover Code. Suspension was the action taken against Saint Piran.

However if the Council suspended *Guinness shares* because of the company's breach of the Code - and the company failed to relent in its defiance - the Council would have little choice but to restore the listing. The courts would never allow the Council to circumvent the restrictions on its discretion in the Financial Services Act by using its power of suspension as a back-door way of permanently cancelling a listing, the DTI official says.

This argument will create a dilemma not only for the Panel but also for the Guinness directors, if they were to lose their court case against the Panel. *Even if the directors* were inclined to obey the Panel's ruling and possibly pay out £100m of compensation to former Distillers shareholders, to do so might be a breach of their fiduciary duty to act in the best interests of their shareholders.

In the past, when the Panel has ordered a bidding company to increase its offer to the shareholders of the target company, because of concert party transactions or for other reasons, the *bidding company directors* could always argue that compliance was in their company's best interests. It is never clear in advance whether or not the bidder will succeed without increasing its offer anyway. Moreover, to defy the Panel could have resulted in a de-listing of the company's shares.

However in the Guinness case, the ruling is retrospective as Distillers has already been acquired and the de-listing threat has gone. To justify compliance, the Guinness directors might therefore be forced to rely on such intangible arguments as wishing to preserve the company's reputation in the City and upholding the respect for an important City institution.

There is however a further twist. By deciding that Guinness breached *the Takeover Code* by acting in concert with the purchaser of 10.6 million Distillers shares on the penultimate day of the bid battle, the Panel has also suggested in effect that Guinness breached the Companies Act. The definition of "persons acting in concert" in the Takeover Code is not identical with the definition of an "agreement to acquire interests in a target company" under the Companies Act but it is similar.

As a result, the shareholders in Distillers would be in a strong position to claim that Guinness was in breach of its statutory duty by failing to disclose the concert party stake in Distillers and that they were entitled to damages as a result. They could have a further claim for breach of statutory duty if Guinness is found to have breached section 151 of the Companies Act which prohibits companies from giving financial assistance for the purchase of their own shares.

If the High Court upholds Guinness's claim against the Takeover Panel, many of these problems would be avoided - at least until the various court cases and DTI inspectors' report clarified the nature of the abuses during the takeover battle. This might mean a wait for two or three more years. However, would the authority of the Takeover Panel then be seriously damaged?

Mr Marcus Agius, managing director of corporate finance at Lazard Brothers, who *is advising* Guinness, denies that a successful legal challenge by Guinness would have such an effect.

"The Panel executive is like a *referee in a football game,*" he says. "Often a referee will give a goal when the player was actually offside but mistakes are accepted as inevitable during the rough and tumble of a battle. The Panel too metes out a sort of rough justice which no one is arguing against. But in this case we are talking about examining a set of circumstances of 18 months ago so there is no requirement for speed. What matters is not a quick decision but a correct one." He adds that if the Guinness challenge is successful, it will merely prevent the Panel from making a decision about the concert party *issue immediately. However* the Panel will remain free to make the decision once all the relevant *facts* have been established by the DTI inspectors and in the court cases.

"I do not see that what comes out of this case will make a ha'porth of difference to the effectiveness of the daily operations of the Panel."

JUDICIAL REVIEW WILL BE A STANDARD FEATURE

The Takeover Panel now accepts that judicial review of its decisions will become a standard feature of UK bid practice, *writes Clay Harris. This does not mean that* **every step of every takeover will face legal scrutiny, only that judicial review has lost the novelty - and the perceived threat to the status quo - that it had when the Panel was first taken to court nearly a year ago.**

It underlines, moreover, the evolving nature of the UK's supposedly self-regulatory system of policing merger activity.

Although the Panel is now thoroughly enmeshed in a legal structure which may *hinder speedy decisions,* **one of the benefits of self-regulation, its latest move reflected a determination to enforce the Takeover Code,** *independent of* **the separate criminal charges which have been filed in the Guinness affair.**

Mr John Walker-Haworth, whose two-year term as Panel director general ends next month, says: "If we don't feel a duty to look after offeree company shareholders who have been done down under Code rules, who would?"

The Panel nevertheless was not surprised that Guinness decided to challenge its "concert party" ruling and is confident that its authority will eventually be upheld.

The Panel is also confident that it subsequently would be able to implement the judgment - and oblige Guinness to pay former Distillers shareholders the difference between the value of its offer and the top price of 731p paid to buy *shares in the stock* **market during the takeover battle.**

Distillers shareholders and financial intermediaries have been alerted to preserve their records, and the Panel would likely advertise widely to solicit claims once the procedure reaches that stage.

The Panel is undeterred by the fact that it has never before intervened so long after the conclusion of a contested bid. "It's technically complicated, but it's not technically impossible," says Mr Walker-Haworth."

The latest episode comes less than a year after the first formal legal test of the Panel's power. In that case, the Court of Appeal declined to overturn the Panel's decision that Norton Opax had succeeded in its takeover bid for McCorquodale, another printing group.

It ruled, **however, that panel decisions were open to judicial review, although normally this would only be done in retrospect to establish** *issues of principle,* **rather than to reverse a specific ruling.**

By acting in the Guinness affair, the Panel has put down another marker that it intends to defend its role - even if the rules and conditions are changing around it.

NOTICE OF REDEMPTION

To the Holders of

Norges Kommunalbank

7½% Guaranteed External Loan Bonds Due December 15, 1990

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of Section 4(c) of the Fiscal Agency Agreement dated as of December 15, 1972 between Norges Kommunalbank and The Chase Manhattan Bank (National Association), as Fiscal Agent, $1,470,000 aggregate principal amount of the above-captioned Bonds (the "Bonds") will be redeemed through operation of the sinking fund on December 15, 1987 (the "Redemption Date") at the Redemption Price of 100% of the principal amount thereof (the "Redemption Price").

The serial numbers of the Bonds to be redeemed are as follows:

M 6	1107	2177	3075	3678	4478	5309	6481	7086	8331	11476	14194	17244	17591	18515	18929	19313	19677	20054
9	1110	2215	3093	3724	4480	5318	6483	7099	8513	11479	14242	17247	17598	18519	18931	19315	19678	20056
15	1121	2223	3095	3734	4514	5340	6484	7121	8616	11484	14244	17250	17602	18527	18932	19320	19680	20057
21	1125	2226	3098	3736	4515	5352	6486	7123	8638	11486	14249	17278	17606	18533	18933	19323	19681	20058
28	1129	2230	3109	3743	4539	5358	6488	7125	8774	11490	14257	17279	17616	18541	18942	19324	19684	20059
29	1132	2232	3111	3755	4540	5400	6490	7129	8775	11491	14305	17283	17617	18544	18944	19329	19706	20061
82	1138	2265	3112	3768	4545	5401	6496	7180	8778	11663	14314	17289	17620	18549	18945	19330	19710	20068
105	1146	2292	3133	3783	4549	5477	6497	7183	8780	11665	14318	17297	17623	18550	18946	19341	19711	20069
115	1150	2297	3135	3797	4551	5502	6500	7241	8793	11679	14319	17299	17625	18552	18948	19342	19724	20072
132	1156	2301	3142	3799	4564	5503	6511	7243	8923	11683	14321	17301	17629	18554	18949	19348	19727	20073
149	1164	2325	3147	3839	4566	5560	6512	7244	9004	11684	14329	17302	17631	18559	18954	19351	19736	20074
153	1180	2330	3150	3845	4569	5612	6514	7261	9043	11690	14336	17312	17632	18561	18955	19358	19739	20084
155	1193	2359	3155	3846	4571	5622	6517	7263	9046	11998	14458	17315	17634	18568	18956	19360	19751	20085
157	1195	2388	3158	3847	4595	5625	6518	7268	9047	12006	14459	17319	17642	18573	18959	19392	19760	20100
159	1196	2395	3159	3848	4607	5638	6521	7361	9057	12609	14609	17322	17658	18576	18960	19393	19767	20104
164	1201	2407	3171	3870	4619	5639	6525	7368	9126	12613	14612	17323	17671	18579	18970	19399	19769	20105
191	1275	2409	3180	3884	4620	5742	6626	7370	9129	12744	14616	17327	17672	18586	18974	19400	19770	20112
224	1332	2428	3185	3885	4647	5744	6527	7391	9137	12745	14621	17329	17676	18590	18976	19405	19780	20115
247	1338	2430	3213	3888	4653	5745	6531	7393	9139	12768	14622	17337	17678	18592	18979	19406	19782	20116
258	1347	2435	3221	3889	4657	5747	6538	7394	9144	12771	14627	17348	17684	18595	18980	19410	19784	20118
270	1359	2439	3259	3891	4659	5749	6543	7456	9149	12773	14630	17349	17685	18597	18981	19411	19790	20120
297	1360	2443	3265	3909	4674	5750	6551	7457	9158	12789	14639	17351	17807	18602	18983	19426	19785	20121
313	1361	2447	3271	3914	4680	5753	6558	7617	9615	12791	14643	17355	17809	18604	18984	19433	19796	20122
314	1368	2451	3272	3924	4682	5765	6562	7756	9644	12806	15001	17358	17810	18608	18986	19434	19802	20126
315	1401	2470	3275	3925	4686	5791	6564	7760	9954	12810	15008	17360	17822	18609	18999	19435	19803	20128
335	1402	2472	3281	3932	4687	5812	6570	7764	9960	12814	15011	17370	17826	18614	19009	19437	19804	20129
358	1416	2490	3282	3943	4695	5818	6575	7810	9961	12818	15012	17371	17827	18616	19014	19447	19806	20130
372	1421	2511	3293	3956	4706	5820	6590	7811	10063	12823	15066	17373	17830	18618	19021	19449	19818	20133
397	1434	2522	3297	3962	4710	5821	6662	7813	10076	12827	15068	17374	17853	18621	19029	19451	19819	20134
408	1460	2550	3304	3971	4713	5825	6667	7814	10077	12835	15071	17375	17859	18629	19030	19452	19821	20136
411	1461	2560	3327	3973	4726	5828	6670	7816	10094	12846	15118	17376	17870	18640	19038	19453	19824	20141
414	1478	2579	3328	3975	4737	5848	6671	7822	10105	12851	15132	17381	17872	18644	19044	19454	19835	20144
425	1500	2596	3345	3997	4782	5860	6685	7824	10147	12855	15178	17384	17965	18645	19045	19456	19836	20146
429	1504	2597	3347	4003	4829	5872	6705	7828	10329	12857	15186	17387	18001	18664	19055	19457	19841	20147
456	1509	2602	3357	4007	4837	5888	6724	7832	10330	12860	15188	17390	18002	18678	19057	19458	19842	20151
479	1520	2626	3361	4019	4838	5892	6728	7840	10333	12922	15189	17399	18004	18681	19061	19460	19844	20152
484	1556	2634	3371	4024	4846	5904	6730	7842	10334	12977	15190	17401	18010	18682	19068	19468	19845	20159
497	1592	2638	3375	4031	4848	6011	6733	7854	10339	13112	15313	17404	18019	18683	19077	19469	19908	20168
503	1606	2658	3411	4053	4853	6012	6734	7861	10343	13138	15317	17407	18027	18685	19080	19470	19911	20169
516	1607	2672	3421	4060	4864	6013	6737	7873	10351	13139	15320	17418	18030	18686	19081	19473	19912	20170
517	1633	2678	3425	4075	4867	6019	6745	7875	10383	13143	15324	17423	18032	18717	19089	19476	19915	20171
524	1656	2685	3430	4081	4888	6051	6752	7876	10401	13145	15327	17425	18070	18719	19090	19478	19920	20185
610	1659	2689	3453	4082	4925	6062	6753	7878	10408	13147	15334	17426	18103	18733	19091	19480	19934	20189
664	1680	2696	3457	4086	4930	6064	6756	7879	10415	13154	15339	17427	18117	18738	19094	19496	19935	20192
670	1701	2704	3461	4098	4939	6087	6774	7889	10418	13209	15342	17432	18119	18742	19100	19500	19936	20197
674	1727	2721	3463	4104	4942	6230	6779	7898	10444	13212	15347	17443	18121	18743	19105	19504	19938	20198
676	1795	2753	3467	4106	4943	6236	6783	7906	10445	13223	15349	17444	18125	18775	19108	19529	19939	20208
729	1814	2803	3470	4138	4997	6247	6784	7908	10452	13249	15362	17452	18178	18779	19114	19530	19941	20216
751	1815	2826	3475	4140	5001	6248	6785	7909	10454	13250	15372	17456	18181	18785	19118	19532	19942	20218
754	1821	2843	3476	4142	5034	6254	6792	7935	10484	13253	15374	17460	18185	18787	19121	19533	19944	20233
767	1832	2851	3481	4153	5035	6264	6793	7936	10503	13254	15376	17462	18193	18793	19183	19534	19952	20235
774	1838	2853	3511	4158	5054	6281	6798	7937	10509	13256	15495	17465	18200	18798	19197	19538	19964	20244
777	1849	2855	3523	4157	5067	6283	6799	7938	10538	13491	15580	17466	18245	18808	19203	19540	19965	20253
789	1850	2866	3525	4187	5075	6284	6815	8032	10554	13558	15581	17472	18383	18809	19223	19541	19967	20260
792	1870	2869	3528	4188	5089	6285	6816	8048	10556	13565	16054	17474	18391	18814	19227	19545	19968	20261
797	1878	2879	3531	4208	5093	6288	6817	8049	10562	13792	16056	17476	18408	18872	19228	19546	19973	20264
836	1884	2880	3532	4216	5115	6290	6826	8054	10563	13793	16068	17478	18411	18873	19229	19551	19974	20272
842	1886	2888	3539	4218	5156	6298	6827	8056	10575	13796	16069	17485	18412	18874	19230	19554	19975	20277
868	1900	2890	3550	4233	5157	6299	6829	8065	10586	13802	16070	17487	18417	18875	19232	19555	19976	20281
888	1914	2895	3551	4238	5159	6305	6833	8072	10774	13805	16071	17493	18421	18876	19233	19564	19977	20282
933	1924	2898	3552	4246	5173	6315	6839	8097	10779	13860	16988	17494	18430	18877	19234	19568	19979	20283
950	1974	2906	3561	4250	5175	6324	6840	8134	10790	13862	16989	17495	18434	18878	19236	19571	19981	20284
956	1978	2911	3589	4256	5183	6332	6842	8137	11033	13911	16990	17507	18437	18879	19262	19587	19982	20293
963	1981	2931	3590	4264	5192	6342	6849	8138	11117	13916	16991	17509	18438	18880	19263	19588	19987	20294
977	2047	2937	3593	4335	5199	6343	6853	8141	11118	13925	16994	17518	18441	18882	19264	19606	19988	20296
979	2051	2962	3617	4337	5200	6344	6860	8142	11119	13926	16997	17526	18442	18883	19265	19607	19992	20297
1019	2057	2972	3620	4340	5207	6347	6875	8144	11273	13943	17000	17540	18446	18884	19273	19608	20004	
1021	2059	2996	3630	4345	5213	6349	6876	8145	11274	13944	17184	17545	18453	18886	19274	19616	20008	
1025	2063	3002	3634	4346	5222	6351	6878	8147	11276	13945	17193	17549	18457	18887	19276	19626	20009	
1028	2066	3008	3642	4354	5230	6367	6901	8156	11284	13949	17197	17559	18462	18889	19280	19627	20010	
1032	2070	3016	3651	4368	5231	6369	6951	8160	11387	13951	17202	17560	18463	18892	19282	19636	20011	
1052	2098	3023	3654	4375	5233	6374	6955	8169	11461	14006	17218	17566	18465	18896	19291	19641	20015	
1065	2107	3027	3655	4388	5234	6375	6958	8187	11463	14019	17221	17567	18467	18917	19292	19646	20018	
1066	2121	3029	3682	4394	5236	6391	7045	8194	11466	14173	17223	17570	18469	18918	19297	19648	20023	
1073	2124	3052	3684	4422	5242	6392	7052	8295	11469	14178	17225	17579	18470	18919	19300	19664	20026	
1092	2133	3055	3687	4432	5271	6398	7055	8314	11471	14184	17227	17580	18506	18920	19302	19674	20031	
1093	2149	3063	3688	4450	5295	6439	7096	8321	11473	14186	17232	17586	18509	18922	19305	19675	20035	
1103	2150	3065	3674	4465	5306	6480	7097	8328	11474	14189	17240	17590	18513	18926	19312	19676	20040	

On the Redemption Date there will become and be due and payable upon each Bond to be redeemed the Redemption Price in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts therein. Interest thereon shall cease to accrue from and after the Redemption Date.

Payment of the Redemption Price of each Bond to be redeemed will be made upon presentation and surrender of such Bonds, together with the interest coupons appertaining thereto maturing subsequent to the Redemption Date, at any of the following paying agencies:

The Chase Manhattan Bank, N.A.
Corporate Bond Redemptions
Box 2020
1 New York Plaza-14th Floor
New York, New York 10081

The Chase Manhattan Bank, N.A.
41 rue Cambon
75001 Paris, France

Banque de Commerce S.A.
Main Branch, 51/52 Avenue des Arts
B-1040 Bruxelles, Belgium

The Chase Manhattan Bank, N.A.
P.O. Box 440
Woolgate House - Coleman Street
London EC2P 2HD, England

Kredietbank, S.A. Luxembourgeoise
37 rue Notre-Dame
Luxembourg, Luxembourg

The Chase Manhattan Bank, N.A.
Piazza Meda, 1,
20121 Milan, Italy

The Chase Manhattan Bank, N.A.
P.O. Box 4428
Taunusanlage 11
Frankfurt/Main
Germany

Nederlandsche Credietbank, N.V.
Herengracht 458
P.O. Box 941
Amsterdam
Netherlands

Coupons which shall mature on, or shall have matured prior to, said Redemption Date should be detached and surrendered for payment in the usual manner.

NORGES KOMMUNALBANK

By: The Chase Manhattan Bank (National Association), *Fiscal Agent*

Dated: November 23, 1987

Bio-Isolates rights and US venture stake lifted

BY HEATHER FARMBROUGH

Bio-Isolates, the loss-making USM company which produces protein from the cheese by-product whey, is to raise £650,000 through a rights issue and increase its stake in Le Sueur Isolates, a US joint venture, to 75 per cent.

The increased stake will be achieved through a complex transaction which involves Protein Research, a company established to lend $1.25m (£700,000) to LSI, buying 25 per cent of the US company for a nominal $1,700. Bio-Isolates will then take over Protein Research by issuing £735,000 in shares.

The funds made available by the £1.39m equity issues, plus a new credit line of £400,000, will be used to retire much of LSI's debt. This is intended to facilitate the development of new products, especially BIPRO-IG, which the company plans to use *as a raw material for products* that strengthen the immune systems of new-born calves.

The complex financial deal is also intended to rationalise Bio-Isolates' corporate structure and maximise its ability to take up UK tax losses.

Bio-Isolates has had several rights issues since it came to the *USM five years ago and has still* to report a pre-tax profit.

The two-for-nine rights and the share issue to Protein Research are priced at 27.5p, compared with Bio-Isolates' closing price of 28p on Friday. The rights issue is underwritten by the owners of Protein Research, who could end up with as much as 37 per cent of Bio-Isolates' shares. The Takeover Panel has waived the requirement for a general offer to be made to all shareholders.

The deal is also intended to rationalise Bio-Isolates' corporate structure. The total funds made available will be £1.785m of which £0.4m represents an additional line of credit and £1.385m cash to be provided by the issue of new shares.

Dalgety

Sir Peter Carey is chairman of *Dalgety*. An article on Saturday incorrectly referred to his predecessor, Mr David Donne.

COMPANY NEWS IN BRIEF

AUSTRALIA INVESTMENT Trust improved earnings to *1.94p in year ended September* 30 1987 (0.81p) and paying dividend of 2.7p (0.25p). Net asset value 155.6p (107.4p), but down to 112.2p at end October.

BRITISH EMPIRE Securities **and General Trust** maintaining dividend at 0.6p from earnings of 1.2p year ended September 30 1987 (0.44p). Final is 0.4p. Total income £4.5m (£5.22m) and tax charge £352,000 (£1.47m). Net asset value 63.53p (40.41p) per share.

POLYPIPE has acquired Hayes Pipes (Ulster) to be satisfied by the issue of shares. Base consideration is £1.05m, with a further amount of up to £1m if Hayes' pre-tax profit in the period April 1 to November 19 1987 is £270,000 or more. For the seven months to end-October profits are expected to rise to £300,000 (£161,000 for the 14 months ended March 1987).

SHARP & LAW has acquired Internal Partition Systems for an *initial £1.5m to be satisfied by* the issue of £750,000 in 10 per cent loan notes, £300,000 in new ordinary and £450,000 cash. Further payments will be made if pre-tax profits exceed £300,000 in 1988 or 1989 up to a maximum further £1.5m if pre-tax profits for those years average £600,000 or more.

FINANCIAL TIMES STOCK INDICES

	Nov. 20	Nov. 19	Nov. 18	Nov. 17	Nov. 16	Nov. 13	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	91.03	90.89	90.70	90.74	90.28	90.63	93.32	83.73	127.4	49.18
Fixed Interest	95.64	95.28	95.64	95.34	95.20	95.36	99.12	90.23	105.4	50.53
Ordinary	1285.7	1289.9	1309.3	1310.6	1325.6	1317.1	1926.6	1232.0	1926.2	49.4
Gold Mines	287.2	296.9	285.5	284.0	288.2	288.2	497.5	261.6	734.7	43.5
FT-Act All Share	818.26	824.11	836.09	835.40	846.89	840.33	1238.57	813.85	1238.57	61.92
FT-SE 100	1633.4	1639.1	1663.7	1660.1	1684.7	1678.3	2443.4	1608.1	2443.4	986.9

DIARY DATES

Business and Management Conferences

November 24
The Henley Centre: The UK economy - the next five years (01-353 9961)
Cavendish Conference Centre, London

November 24
The Institute of Taxation: Tax planning for individuals and trusts (01- 235 9381)
RAF Club, Piccadilly W1

November 26
Leasing Digest Conferences: Looking forward with hindsight (01-236 3288)
Grosvenor House Hotel, London W1.

November 26-27
Central Computer and Telecommunications Agency, HM Treasury: European conference on the use of knowledge-based and expert systems in government (01-868 4466)
Gatwick Hilton Hotel

November 27
The Textile Institute: Protecting and exploiting creative ideas in the textile industry - conference and seminar (061-835 3087)
Holiday Inn Crowne Plaza Midland Hotel, Manchester.

November 30
IBC: Recent developments in EEC competition law (01-236 4080)
London Press Centre,EC4

December 1
National Economic Development Office - Consumer Electronics EDC: Automating the home........now and tomorrow (0273 722687)
Royal Garden Hotel, London

December 1-2
Financial Times: World Telecommunications (01- 925 2323)
Hotel Inter-Continental, London W1

December 1
Waters Information Services: Technology issues in 24-hour trading (NY 607- 772 8086)
Hotel Parker Meridien, New York City

December 2
The Watt Committee on Energy: Renewable energy sources (01-379 6875)
The Royal Institution of Great Britain, London W1

December 2-5
International Safety and Security Fair- FISP (01-499 0877)
Sao Paulo

December 3
CBI Conferences: Financial Services Act II (01-379 7400)
Centre Point, London, WC1

December 3-4
Financial Times / British Venture Capital Association: Venture capital financial forum (01- 925 2323)
Hotel Inter-Continental, W1

December 3-4
Institute of Directors: Fighting off the predators - or becoming one yourself (01-839 1233)
116, Pall Mall, London

December 7
CBI Conferences: Winning partnerships - success through academic/industry collaboration (01-379 7400)
Centre Point, London WC1

December 7-8
The Royal Institute of International Affairs: Energy 1987 - The new market equilibrium? (01-930 2233)
10, St James Square,London SW1

December 9-10
Institute for International Research (two one-day conferences): Cutting your trading costs through effective risk management and settlement procedures; Can technology develop and improve your dealing activities and investment decisions? (01-434 1017)
Noga Hilton,Geneva

Anyone wishing to attend any of the above events is advis to telephone the organisers ensure that there has been changes in the details pu lished

Trade Fairs and Exhibitions:UK

Current
International Building and Construction Exhibition (01-486 1951)(until November 28)
NEC, Birmingham

December 1-3
International Trade and Services Exhibition and Conference - EXPORT (01-727 1929)
Business Design Centre,London

December 1-5
World Travel Market Exhibition (01-940 6055)
Olympia

December 3-6
Retirement Exhibition-RETIREMENT (01-387 7878)
The Barbican Centre

December 6-9
Telecommunications in the 9 Exhibition - TMA 20
Metropolitan Exhibitio Hall,Bright

December 7-10
Royal Smithfield Show & Ag culture Machinery Exhibiti (01-235 0315)
Earls Cou

December 8-11
International Bus, Truck and C Product and Manufacturi Technology Exhibition and Co ference - AUTOTECH (021-7 4171)
NEC,Birmingha

December 18-19
Cash and Carry Fashion Fa (01-727 1929)
Kensington Town Ha

Overseas Exhibitions

November 24-27
World of Concrete Europe Exhibition (0923 778311)
Brussels

November 25-28
North European Electronics, Electrical Engineering and Power Transmission Exhibition - ELECTROTEC (0202 687070)
Hamburg

December 3-6
World Print Exhibition and Co gress-WPE (01-940 3777)
Hong Ko

December 9-15
Optics and Glass Exhibitio (01-439 4452)
Beiji

December 10-15
Heating, Refrigerating and A conditioning Exhibition- INTE CLIMA (01- 225 5566)
Par

FINANCIAL

TODAY

COMPANY MEETINGS-
Britannia Security Group, The Charing Cross Hotel, Strand, 12.00
Haggas (John), Keighley, 11.00
High-Point Services, Institute of Directors, 116 Pall Mall, S.W., 12.00

BOARD MEETINGS-
Finals;
Carroll Inds.
Interims;
BET
Chamberlain Phipps
Crown Eyeglass
Delmar Group
EMAP
Fairbriar
Freshbake Foods
Rexmore
Sekers Int.

DIVIDEND & INTEREST PAYMENTS-
Aon Corp. 30cts.
BTR 4.2p
Barham Group 1.8p
Beatson Clark 3.3p
Bejam 2.6p
Brent Chemicals 1.1p
DRG 4.1p
Davidson Pearce Group 1.2p
Doeflex 1.15p
Druck Hldgs. 3.2p
Estates & General Inv. 1p
Export-Import Bank of Korea Flg. Rate Nts. 1994 $416.56
Haden MacLellan Hldgs. 0.7p
Haggas (John) 2p
Lloyds Chemists 0.85p
MAI 14p
Renishaw 1.7p
Ruo Estates Hldgs. 3p
Rutland Trust 0.1p
Stag Furniture Hldgs. 1.75p
Star Computer 1.5p
Sunderland 11¼% Red. 2008 5.875pc
Treasury 13¾% Ln. 1993 6.875pc
Trinidad & Tobago 12¼% Ln. 2009 6.125pc
Wentworth International 1.75p

TOMORROW

COMPANY MEETINGS-
Chambers & Fargus, 186-187 Wincolmlee, Hull, 12.00
Synapse Computer Services, Barrington House, Gresham Street, E.C., 12.15
Throgmorton Dual Trust, Queens Room, Honourable Artillery Company, Armoury House, City Road, E.C., 12.30

BOARD MEETINGS-
Finals;
Anglo Irish
Cosalt
Humberside Elect.
Northern American Tst.
TMD Advertising
Union Steel Corp. of S.A.
Interims;
Alphameric
BAA
Erskine House
Hambros
Monks Invest.
Murray Tech. Invs.
Powell Duffryn
Powerscreen Intl.
Readicut

DIVIDEND & INTEREST PAYMENTS-
Boustead 0.1p
Gresham House 2.5p
Ibstock Johnsen 1.5p
Royal Bank of Canada 52cts.

WEDNESDAY NOVEMBER 25

COMPANY MEETINGS-
Clogau Gold Mines, Glaziers Hall, 9 Montague Close, London Bridge, S.E., 11.30
Great Universal Stores, Chartered Insurance Institute, 20 Aldermanbury, E.C., 12.00
Lawtex, Bower Hotel, Hollinwood Ave., Chadderton, Oldham, 12.00
TSW, The Studios, Derry's Cross, Plymouth, 2.30
Trafford Park, United Trading Estate, United Road, Old Trafford, Manchester, 12.00

BOARD MEETINGS-
Finals;
Greenall Whitley
Kwik Save
MEPC
Moss Advertising
Interims;
Authority Invs.
Basset Foods
Cable & Wireless
Chancery Secs.
Courtaulds
FKI Elect.
Harrisons Mly. Est.
Hogg Robinson
Hughes Food
Magnet
Vibroplant
Warburg (S.G.)
York Trust

DIVIDEND & INTEREST PAYMENTS-
Aluminium Co. of America 30cts.
Boot (Henry) & Sons 5p
B.H. Prop. 15cts.
Chambers & Fargus 1.75p
Early's of Witney 0.315p
Eaton Corp. 80cts.
Gent (S.R.) 0.645p
Kwahu 1.5p
Murray Ventures 3.5p
Primerica 40cts.
Regina Health 0.284p
Savage Group 3p
Sound Diffusion 0.601p
Trafford Park 8.75p

THURSDAY NOVEMBER 26

COMPANY MEETINGS-
Amstrad, Adelphi Suite, The Waldorf, Aldwych, W.C., 3.00
Maunders (John), The Holiday Inn, Crowne Plaza, Peter Street, Manchester, 10.30
Tottenham Hotspur F.C., Tottenham High Road, N., 11.00

BOARD MEETINGS-
Finals;
TSB (C.I.)
Interims;
BPB Inds
CCA Galleries
Dewson Intl.
Hille Ergonom
Imry Intl.
Marston Thompson
Redland
Rothmans

DIVIDEND & INTEREST PAYMENTS-
BDA Hldgs. 1p
Bank of Tokyo NV Gtd. Flg. Rate Nts. 1990 £113.12
Beauford Group 1.2p
Conrad Hldgs. 1p
Emess 2.8p
Hampden Homecare 0.5p
Lloyds Eurofinance NV Gtd. Flg. Rate Nts. 1998 £113.12
Molins 2.5p
Oriflame Int. SA NPV (U.K.) 3p
Do. (Lux.) 3p
Do. (Br.) 3p
Prudential Corp. 11.5p
Synapse Computer Services 3.2p
Systems Reliability 1.7p
Utd. Friendly B 8p
Western Mining A$0.05

FRIDAY NOVEMBER 27

COMPANY MEETINGS-
BM Group, Ironmongers Hall, Barbican, E.C., 11.30
Fisher (A.), Castle Hotel, 18 High Street, Windsor, Berkshire, 12.00
Ossory Estates, Dorchester Hotel, Park Lane, W., 12.00
Tay Homes, Queens Hotel, City Square, Leeds, 2.30
West Yorkshire Ind. Hospital, Bankfield Hotel, Bingley, 12.30

BOARD MEETINGS-
Finals;
Airtours
Bank of Nova Scotia
Interims;
Brewmaker
Bulgin (A.F.)
Merrydown Wine

DIVIDEND & INTEREST PAYMENTS-
Abbey Life 3p
Alexandra Workwear 1.1p
Amstrad 0.5p
Anchor Chemical 2.5p
Antler 1.3p
Armstrong Equipment 2.4p
Bank of Montreal 50cts.
British Fittings Grp. 1.375p
Cookson Grp. 4p
Cussins Prop. Grp. 2.8p
Debtor Hldgs. 1.5p
Great Western Financial Corp. 15cts.
Green (E.) & Partners 2.5p
Higgs & Hill 3p
Hill Samuel Grp. 4p
INSTEM 1p
MIL Research 1.1p
Maunders (John) 3.1p
Minerals Oils & Res. 15cts.
New Brunswick Flg. Rate Nts 1994 C$23.9
President Entertainments 0.85p
Fleming (Rbt.) Netherlands Prim. Cap. Und. Flg. Rate Nts. $433.59
Royal Bank of Canada Flg. Rate Debs 2005 $65.55
S & U Stores 1.25p
Sirdar 3.5p
Suter 1.5p
T & S Stores 0.6p
Tay Homes 4.43p
Trafus 0.5p
Vivat Hldgs. 1p
Watts, Blake, Bearne & Co. 2p
Wells Fargo Flg. Rate Sub. Nts. 2000 $66.11
Wooltons Betterware Grp. 1.4p

SATURDAY NOVEMBER 28

DIVIDEND & INTEREST PAYMENTS-
Perry Group 2p

Parliament

TODAY

Commons: Liberal debate on the future government of Scotland.

Lords: Criminal Justice Bill, report stage.

Select Committees. Public Accounts - subject: Postgraduate Awards. Witnesses: Sir David Hancock, Department of Education and Science; Dr E.W. Mitchell, Science Engineering Research Council; Mrs S. Reeve, Economic and Social Research Council. (Room 16, 4.45pm.)

TOMORROW

Commons: Multilaterial Investment Guarantee Agency Bill 2nd reading. Motion of Common Agricultural Policy Reform and Agricultural Stabilisers.

Lords: Lerwick Harbour Order Confirmation Bill, report. Merchant Shipping Bill, committee.

Select Committees: Parliamentary Commissioner for Administration - subject: Reports of the Health Commissioner for 1986 to 1987. Witnesses: North Warwickshire Health Authority and Macclesfield Health Authority (Room 6, 4.30pm).

WEDNESDAY

Commons: Urban Development Corporations (Financial Limit) Bill remaining stages, followed by Scottish Development Agency Bill,report and third reading. Motion on Food Protection (emergency prohibitions) Order.

Lords: Debate on financial and economic aspects of the Government's privatisation programme and the case for effective competition. Debate on alcohol abuse and the need for an inquiry into national and cultural attitudes on drinking. Land Registration Bill Second Reading. Question on the Government's response to the Overseas Student Trust Publication "The Next Step Overseas - Student Policy into the 1990s."

Select Committees: Unopposed bill - City of Westminster (Room 9, 4pm). Public Accounts - subject: Regulation of Heavy Lorries. Witness: Sir Alan Bailey, Department of Transport. (Room 16, 4.15pm). Joint Committees Consolidation Consideration of Income and Corporation Taxes Bill (Room 4, 4.30pm).

THURSDAY

Commons: Labour debate on the worsening financial pressures on National Health Service hospitals. Motion on Financial Assistance for Opposition Parties.

Lords: Civil Evidence (Scotland) Bill, committee. Merchant Shipping Bill, committee. Question on the role of the Royal Society for the Prevention of Accidents in the promotion of safety, particularly on the roads.

FRIDAY

Commons: Private members motions.

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. date	1987 High	1987 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
-	F.P.	23/10	27	14	Atlantic Assets Wrrnts.	14		-	-	-	-
§105	F.P.	6/11	160	71	‡Banner Homes 10p	71	-7	R2.6	2.9	5.0	9.3
330	120	-	88	75	British Petroleum	79	+½	R12.5	1.5	5.9	14.4
§18	F.P	26/11	27	18	‡Chartsearch 1p	22½	-½	R0.44	3.0	2.7	16.9
100	F.P	-	121	103	‡Co. of Designers 5p	106	-2	R3.0	2.2	3.9	12.8
10	F.P.	11/12	14¼	5	EFM Dragon Trust 5p	5½	-1½	-	-	-	-
†	F.P.	•	268	238	English & Caledonian Inv.	238		-	-	-	-
74	F.P	9/12	81	74½	‡Fairway (London)5p	78		R2.5	1.8	4.4	13.8
-	F.P.	-	67	26	First Spanish I.T. Wrrnts.	26	-2	-	-	-	-
-	F.P.	-	104	70	Haden MacLellan 20p	80	+1	1.9	1.5	3.2	-
†	F.P.	-	152	100	Hard Rock Intl. 2p	130	-8	L1.53	3.3	1.6	23.1
†	F.P	-	125	97	Do 'A' (Restricted Vtg)2p	97	-3	L1.53	3.3	2.2	17.3
-	F.P.	23/10	23	12	Independent Inv. Wrrnts.	14		-	-	-	-
§80	F.P	-	148	81	ISA Intl. 5p	89	-2	R1.17	4.0	1.8	18.9
§60	F.P	-	82	43	*Kemp (P.E.)5p	43		-	-	-	8.1
§115	F.P.	-	128	65	‡Marcol 5p	68	+2	12.3	2.1	4.6	14.4
257	F.P.	-	98	55	Moorgate Inv. Wrrnts.	55	-5	-	-	-	-
§100	F.P.	-	108	101	New Guernsey Securities	101		-	-	-	-
§10.58	F.P	-	$21¼	59	Portugal Fund $0.01	$9¼		-	-	-	-
§110	F.P.	20/11	111	72	Power Corp.Ir.£0.01	72		Q36.9	2.5	4.7	9.4
§45	F.P.	-	48	46	*Propellor 1p	48	+2	W-	-	-	15.0
§88	F.P.	-	90	67	Record Hldgs 5p	67	-3	R2.0	3.2	4.1	10.5
250	F.P	12/12	317	138	‡Stanhope Prop.	198	-5	-	-	-	-
§114	F.P.	-	121	115	‡Sykes-Pickavant 10p	118		R5.25	2.0	6.1	11.1
§20	F.P.	21/12	26	20	‡Tubular Exhibitions	22	-2	-	-	-	-
§87	F.P	9/11	98	58	‡URS Intl.$0.01	58	-2	R4.75	1.9	4.5	11.6
§60	F.P.	-	93	73	‡WSP Hldgs.5p	73		R1.5	3.0	3.9	17.9
†	F.P.	25/11	30	16	Wilshaw Securities	21	-2	-	-	-	-

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1987 High	1987 Low	Stock	Closing Price £	+ or -
§	F.P.	-	75p	70p	*Abelscot 5¼pc. Cu.Cv.Rd.Pf 2006	70p	
100	F.P.	20/11	106½p	81p	Allied Lon. Props. 5¾pc Cnv. Red. Pf	84p	
100	£10	21/1	14	10¼	Chester Wtr. Wks. 11½pc Rd.Db.98/2000	11¼	
100p	F.P	-	87p	63p	Helical Bar 5¼pc. Cnv.Cum.Red.Pf.2012	63p	-2
-	F.P.	-	101¾	99⅞	N'wide Anglia 10⅛pc 12.9.88	101¼	
-	F.P.	-	101¼	99⅞	Do. 10⅛pc 26.9.88	101	
-	F.P.	-	101⅛	100⅛	Do. 10⅛pc 31.10.88	100¾	
§	F.P.	•	109½	99½	Next 5¾pc Cnv. 2003	101½p	
§100	F.P.	•	115p	113p	Record Hldgs. 10pc Cum. Red. Prf. £1	114p	
100	F.P.	-	95p	73p	‡Shield Grp. 5.84pc Cnv. Cum. Red. Pf	80p	+7
-	F.P.	13/11	80p	70p	Utd. Scientific 5½pc Cum. N-V. Pref.	78p	+1

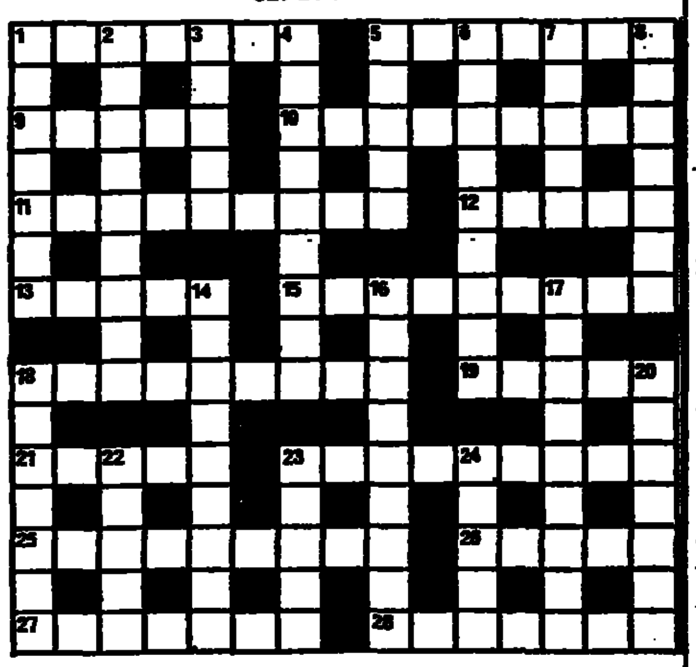
RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1987 High	1987 Low	Stock	Closing Price p	+ or -
992	Nil	23/11	4pm	2¼pm	Ansbacher (H.) Units◆◆	2¼pm	
80	Nil	30/11	2¼pm	¼pm	‡Cityvision 5p	¼pm	
30	Nil	16/12	33pm	11pm	‡Compsoft Hldgs.5p	13pm	
30	Nil	20/11	¾pm	½pm	Eagle Trust 2½p	½pm	
100	Nil	15/12	¾pm	¾pm	Falcon Inds.5p	¾pm	
45	Nil	30/11	5pm	2½pm	Feedex Agric 10p	3pm	-1
80	Nil	-	460pm	205pm	Press Tools	240pm	
260	Nil	27/11	¾pm	¾pm	Securiguard Group 5p	¾pm	

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. L Estimated annualised dividend, cover and p/e based on latest annual earnings. N Dividend and yield based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. Z Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided. ¥ Issued by tender. ◆ Offered to holders of ordinary shares as a rights. † Introduction. § Placing price. †† Reintroduction. ◆ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ◆ Official London listing. □ Including warrants entitlement. * Third Market. ◆◆ Unit comprises 6 new ord. at 82p and £5 Nom.of 9pc.Cnv. Sub. Ln.1998.

FT CROSSWORD No.6,489

SET BY PROTEUS



ACROSS

1 Determined to be resolute (7)
5 Sound of music common in this part of London? (7)
9 Help an ice skater's fear to some extent (5)
10 Reserve silver found in volume (4-5)
11 Stay of limited duration at baseball (5-4)
12 Something out of the usual run in next race (5)
13 Put off by animal swallowing cat's tail (5)
15 Sulphur most unexpectedly found in salt water (9)
18 Erratic behaviour of soldier-theologian in letter (9)
19 Girl takes soldier before magistrate (5)
21 Note-taking employees? (5)
23 Bore related to Turner (9)
25 Inner duel set up by stress (9)
26 *It intensifies light part of* novella's eroticism (5)
27 Always set out to achieve the pinnacle (7)
28 Pushes forward to get head start in business arrangements (7)

DOWN

1 Bore witness when removed from office (7)
2 Orchestral ensemble associated with journalist (5)
3 Old continental coin - one found in tube (5)
4 A debt incurred over island liable to be disputed (9)
5 Body of soldiers turning up nothing in harbour (5)
6 Tyrant finding reporters in poor form (9)
7 Paint-roller not suitable (5)
8 Danger posed by egghead with small bomb (7)
14 Strengthen check on police perhaps (9)
16 Rude about five becoming bankrupt (9)
17 Imposes excessive strain through open questions (9)
18 Action dictated by courtesy sure to get misconstrued (7)
20 Puts up with nudes wandering round about (7)
22 *Make bad deal involving* Dutch capital (5)
23 Tobacco swindle (5)
24 Play about the French monarch (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross

Abbey Unit Tst. Mngrs. (a)
80 Holdenhurst Rd, Bournemouth 0345 717373

Abtrust Management Ltd
10 Queens Terrace, Aberdeen AB9 1QJ 0224 633070

AEtna Unit Trusts Ltd (a)(b)(c)
401 St John St, London EC1V 4QE 01-837 6494

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
26 Jul 26 Jan	Treas 7¾pc 1985–88‡‡	99⅞	19.6	7.77	8.62
10Nov 10May	Exch 10½pc '88	100⅜xd	5.10	10.41	8.54
14Dec 14Jun	Treas 9½pc Cv '88	100[illegible]xd	9.11	9.69	8054
1Jan 1Jul	Transport 3pc '78–88	98	26.5	3.06	6.29
25 Apr 25 Oct	Treas. 9¾pc '88	100[illegible]	18.9	9.44	8.59
22 Aug 22 Feb	Treas 11½pc 1989	103[illegible]	16.7	11.16	8.77
18 Oct 18 Apr	Treas 9½pc Cnv 1989	101[illegible]	11.9	9.41	8.73
15Nov 15May	Treas 3pc 1989	95[illegible]xd	9.10	3.14	6.15
14Dec 14Jun	Treas 10½pc 1989	102[illegible]xd	9.11	10.24	8.73
1Feb 1Aug	Exch 10pc 1989	101[illegible]	25.6	9.82	8.79
29 Mar 29 Sep	Exch 11pc 1989	103[illegible]	24.8	10.61	8.77
15 Apr 15 Oct	Treas 5pc 1986–89	95[illegible]	8.9	5.23	7.53
15 May 15 Nov	Exch 10½pcCv '89	105[illegible]xd	9.10	9.75	7.39
15 Jul 15 Jan	Treas 13pc 1990‡‡	108[illegible]	8.6	12.03	8.74
12 Aug 12 Feb	Exch 11pc 1990‡‡	104[illegible]	16.7	10.55	8.77
22 Sep 22 Mar	Exch. 12½pc 1990	107[illegible]	17.8	11.61	8.77
8 Nov 8 May	Treas. 3pc 1990	92[illegible]xd	2.10	3.26	6.52
15 Dec 15 Jun	Treas 8¼pc 1987–90‡‡	99[illegible]xd	9.11	8.32	8.64
25 Apr 25 Oct	Treas. 10pcCv 1990	103[illegible]	18.9	9.70	8.76
22 May 22 Nov	Exch 2½pc 1990	89[illegible]xd	16.10	2.79	6.33
10 July 10 Jan	Treas 11¾pc 1991	107[illegible]	2.6	10.90	8.82
5Oct 5Apr	Funding 5¾pc '87–91‡‡	93[illegible]xd	1.9	6.13	7.87
13 Nov 13 May	Treas. 3pc 1991	89[illegible]xd	7.10	3.37	6.55
12Jan 12July	Treas 10pc Cv '91 ‡‡	105[illegible]	5.6	9.50	8.27
25Apr 25Oct	Exch. 11pc 1991	107[illegible]	18.9	10.26	8.77
–	Treas. 8pc 1992	97[illegible]xd	10.6	8.20	8.71
22Jly 22Jan	Treas 12¾pc 1992‡‡	113[illegible]	15.6	11.25	8.82
21Aug 21Feb	Treas 10pc 1992	104[illegible]	15.7	9.61	8.80
13Oct 13Apr	Treas. 8pc 1992 ‡‡	97[illegible]	11.6	8.21	8.71
7 Nov 7 May	Treas 10½pc Cv 1992‡‡	106[illegible]xd	1.9	9.90	8.82
11Jun 11Dec	Treas. 3pc 1992	85[illegible]xd	4.11	3.74	8.03
25 Feb 25 Aug	Exch. 12¼pc '92	112[illegible]	20.7	10.87	8.90
22Mar 22Sep	Exch 13½pc 1992	117[illegible]	17.8	11.48	8.93

BRITISH FUNDS – Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS – Contd

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
My Je Se De	RJR Nabisco Inc.	27¼	05.10	$1.60	–	3.4
Jan Apr Jly O	Rep NY Corpn $5	22¾	10.9	$1.16	–	2.9
Mr Je Se De	Rockwell Intl. $1	10⅜xd	9.11	66c	–	3.6
Oc Ja Ap Jly	Sara Lee $1(1/3)	19⅝xd	13.00	$1.00	–	3.0
Mr Je Se De	Saul (B. F.) $1	9⅛	10.9	20c	–	1.3
Fb My Ag No	Southwestern Bell $1	19⅞	7.7	h$2.32	–	6.7
–	Staley Continental	10¾	–	80c	–	4.3
Mr Je Se De	Sun Co. Inc. $1	27¼	05.10	$3.00	–	6.3
Mr Je Se De	TRW Inc. $0.625	23⅞xd	11.8	h$1.60	–	3.9
Mr Je Sp Dc	Tenneco $5	22⅛xd	11.8	$3.04	–	7.6
June Dec	Do. 10pcLn.Stk. 91–5	150xd	13.00	10%	–	†9.7
Mr Je Se De	Texaco $6.25	16⅛xd	31.7	$3.00	–	10.6
Mr Je Se De	Time Inc. $1	43⅛xd	22.8	$1.00	–	1.3
Ja Ap Jy Oc	Tracor $0.33(1/3)	17⅜xd	16.9	40c	–	1.3
Ja Ap Ju Oc	Transamerica $1	18⅞xd	30.00	$1.84	–	5.7
Fe My Au No	Transworld Corp $5	736p	11.11	20c	–	1.5
Mc Je Se De	TRINOVA Corp.	14xd	9.11	56c	–	2.3
Mr Je Se De	♦USX $1	15⅝	30.10	$1.20	–	4.4
Ag Nv Fb Jn	Union Carbide $1	12⅛xd	4.8	$1.50	–	7.0
Mr Je Sp Dc	Utd. Technologies	17⅜xd	19.5	$1.40	–	4.5
Fb My Ag No	US West‖	28⅝	13.4	$3.28	–	6.7
–	Waste Management $1	19⅝	–	–	–	–
–	Whirlpool $1.0	14⅞	–	–	–	–
Mr Je Se De	♦Woolworth $3½	19⅞	19.11	$1.32	–	4.0

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
–	ABM Gold Corp ‖	228p	–	–	–	–
–	♦Abbot Energy Corp.	19¼p	–	–	–	–
–	♦Amer. Barrick Res.	939p	–	–	–	–
–	American Lightwave	6½p	–	–	–	–
–	♦Annaeno	38½p	–	–	–	–
–	Augustito Expln.	41½p	–	–	–	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES – Contd

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Oct. June	Pearl Group 5p	308	14.9	†10.5	–	4.7	–
Nov. May	Prudential	785	12.10	†29.0	–	5.1	–
Nov. May	Refuge 5p	385	14.9	15.75	–	5.6	–
Jan. May	Royal	379	28.9	†15.5	–	5.7	–
–	Sapphire Ins. Invs.	95	–	–	–	–	–
April Oct.	Sedgwick Group 10p	185	14.9	12.0	1.7	8.9	7.9
May Nov	Steel Burrill J. 10p	158	14.9	†9.0	2.0	7.8	8.8
Nov. July	Stewart Wr. 20p	618	12.5	†13.0	2.0	2.9	21.9
Mar Sept	Sturge Hldgs 20p	393	27.7	†16.0	2.5	2.3	23.1
Jan. July	Sun Alliance	823	26.10	†25.5	–	3.9	–
June Nov.	Sun Life 5p	895	28.9	†28.5	–	4.4	–
April	♦Taisho M EDR	940¼	25.9	Q10%	–	1.0	–
Fb My Au Nv	Torchmark $1.00	215	19.09	Q$1.00	–	3.8	–
Nov. May	Trade Indemnity	358	28.9	†4.3	–	1.7	–
Mr Jn Sp De	Travelers $1.25	620	28.7	$2.28	–	6.6	–
–	USF & G Corp $2.50	210	22.08	Q$2.48	–	7.8	–
Dec. June	USLIFE Corp. $1.0	106	04.18	Q$1.28	1.2	4.9	7.2
June Nov	♦Utd Friendly B 10p	620	12.10	21.0	–	4.6	–
May Nov	Willis Faber 12½p	234	28.9	†10.75	2.4	6.9	8.1
Mar. July	♦Windsor Secs. 10p	64	22.12	†0.7	1.5	1.5	–

LEISURE

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
October	BA & M Group 10p	15	11.8	–	–	–	–
–	Airtours 10p	95	–	R4.4	1.5	8.0	11.2
May Aug.	Anglia TV	285	29.6	†11.25	3.3	5.4	7.9
–	Avicy	125	4/82	–	–	–	–
–	Bdsplash Hldgs. 10p	96	23.2	†6.0	1.2	8.6	13.2
–	♦Beazco 1p	70	13.7	0.5	4.7	1.0	19.8
–	♦BCE Hldgs 5p	56	10.8	L0.0	♦	2.5	♦
July Nov	Barr & W.A.T. 'A'	225	29.9	†8.0	1.4	5.1	17.5
–	Bond Media	26	–	–	–	–	–
–	Boosey & Hawkes	175	4/84	–	–	–	–
–	♦Border T.V.	37	14.9	1.4	♦	5.2	♦
June Dec	Brent Walker 10p	279	9.11	†8.5	2.2	5.0	13.2
–	Do 6pc.Cv.Cm.Rd.Pf.	88	–	6.0	–	9.3	–
Mar. Nov.	Campari Int. 20p	177	24.9	†3.0	5.1	2.3	9.1

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

[illegible]

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

[illegible]

A selection of Options traded is given on the London Stock Exchange Report Page

CONSTRUCTION CONTRACTS

Renewing the Tees Viaduct

A £10.8m contract to refurbish the Tees Viaduct carrying the A19 trunk road at Middlesborough has been awarded to **FAIRCLOUGH CIVIL ENGINEERING** by the Department of Transport.

Starting this month, the project will entail refurbishment of the bridge decking, including renewal of the surfacing, waterproof membranes, expansion joints, and elastomeric bridge bearings.

The supporting steelwork of the main spans will be strengthened, and a protective glass-reinforced resin enclosure erected to give access for inspection and maintenance of the 640 metre long main span.

Work requiring jacking of the deck will undertaken during prescribed closure periods for the north and southbound carriageways. Work should be completed by November 1989.

Liver Building refurbished

Contracts worth about £10m have been awarded to **TARMAC CONSTRUCTION**. The largest, at £3m, is for refurbishing the ground floor of the Royal Liver Building, Liverpool, for the Royal Liver Friendly Society.

Other contracts include factory extensions at Burslem, Stoke-on-Trent, for Steelite International (£1.6m); bridgeworks at Peebles, Roxburghshire, for Borders Regional Council (£484,000); a sports hall and changing rooms at New Mills, Derbyshire, for High Peak District Council (£426,000); and demolition and the rebuilding of shops at Llandudno, for Hardanger Properties (£423,000).

The contract housing division, has contracts that include repairs and improvements to homes for Sheffield City Council, worth nearly £2.6 m, and two similar contracts, worth nearly £1.9 m, for Cardiff City Council.

*

Rialto Centre Twickenham

The £2m construction of a leisure complex, the Rialto Centre in Twickenham, has commenced. **JOHN SISK and SON**, working on behalf of Cross Deep Court Developments, will complete the six-storey complex in two stages. The first stage is to complete the snooker hall and wine bar to the basement area for the beginning of the snooker season in 1988. The ground floor shops and restaurant, together with flats on upper floors, comprise the second stage of the 40,000 sq ft development. The final stage of construction is on schedule for completion in December 1988. The Rialto Centre is located at a focal point of the town on the site of the old Odeon Cinema. The new building will have a brick facade, with an arcade of columns and arches creating a feature in the town centre.

*

ALLEN-FOX CONSTRUCTION, part of the Allen Group, has been awarded the £2m design and build contract for a 100,000 sq ft multi-trade centre in Edinburgh by Makro Self Service Wholesalers.

Country house conversion to luxury hotel

LONGS of Bath, a member of the J M Jones Construction Group, has been awarded the £2.5m contract to convert Lucknam Park, Colerne, Wiltshire, into a 39-bedroom hotel for Lucknam Park Hotels. The work has started and the contract period is 33 weeks.

The hotel project was originally conceived by Mr Christopher Cole who has now taken up residence at Lucknam Park. The additional financial support has come from Credit Anstalt, and Speyhawk.

The work includes alterations and refurbishment of the house which is a Grade 2 listed building. Services are being installed throughout the building in which restaurants, drawing rooms and kitchens are on the ground floor, and all the bedrooms and suites have bathrooms. The stable block will be converted to form additional en suite bedrooms.

A leisure spa is to be erected in the walled garden area to the rear of the stable block, including swimming pool, saunas, steam room, gym, games room, and all auxiliary facilities. Leisure facilities will include tennis courts.

*

Rebuilding water company Luton offices

Lee Valley Water Co, which supplies water to one million people in parts of Hertfordshire, Bedfordshire, Essex and north London, has announced the start of a £1.75m project to rebuild its divisional offices and depot in Luton.

Wells on the site provide Luton with 5.3m gallons of water a day.

The main contract has been awarded to **BIGGS WALL**, of Arlesey, Bedfordshire, and work is scheduled to be completed by October, 1988.

Installing services in Docklands

SULZER (UK) BUILDING SERVICES has been awarded a £4.5m contract by Marples International, for installing mechanical and electrical services at phase 2 of an office development at South Quay Plaza, on the Isle of Dogs, London E14.

This follows completion of the contract valued at over £3m for phase I.

The development consists of a nine-storey office block with two levels of car parking, three plant areas in the basement and ground floor level and open circuit cooling towers on the roof. The installation includes heating, ventilation, air-conditioning, plumbing, domestic services, fire protection sprinklers, all electrical services and electronic controls.

The heating is by perimeter convectors and the air-conditioning by a variable air volume system. Three gas-fired boilers and three chillers will be installed.

Completion is scheduled for July 1988.

CHRISTIANI & NIELSEN has been awarded a £1.25m contract by Derbyshire County Council for the refurbishment of Raynesway bridge on the outskirts of Derby. The bridge is situated on the A5111 Derby ring road around half a mile north of Alveston. The bridge crosses the River Derwent.

The work comprises the removal of the existing steel and concrete composite deck, reduction in height of the abutments and piers, regrading the approaches, cantilevering the balllast walls to provide access to rear of beam shelf and provision of new steel and composite deck. The contract will be carried out under a contra-flow system and is due to begin early in 1989 with a construction period of 35 weeks.

WIMPEY CONSTRUCTION UK has been awarded a £5.3m contract by project developer and manager English Estates to build a data processing centre on the Wavertree Technology Park, Wavertree, Liverpool for Barclays Bank. The centre will be built in two stages, the first phase of which is due for completion in March next year and the second in September. The development will comprise two single-storey buildings each of some 5,200 sq metres linked by a two-storey reception area which also houses the plant room. The structure will be a steel frame on a concrete base and ground beam foundations with a floor slab. It will have proprietary metal roof decking, glazed cladding, and a raised service flooring system and suspended ceilings in all main office areas. External works will include a courtyard with car parking, access roads and extensive landscaping.

Mixed development for London Docklands

The special contracts division of **BIGGS AND HILL BUILDING** has been awarded a £3.7m contract by Heron Homes (urban developments division) for a commercial and residential development in the London Docklands development area. The development, Russia Court East, will be composed of a group of buildings. A three-storey office block and a two-storey building containing both shops and flats will be constructed together with a separate residential block of apartments. The latter will include a seven-storey circular tower and a basement car park. A waterside public house completes the development. The office building and that containing the shops and flats will be of load bearing facing brickwork on precast floors and will have pitched tile roofs. The seven-storey tower will be of reinforced concrete construction with facing brickwork. Extensive landscaping will be carried out and parking areas provided.

Four orders for Wilcon

Four contracts totalling nearly £3.7m have been awarded to **WILCON CONSTRUCTION**.

The largest, negotiated with developers Trencherwood Commercial in association with Sedgebrook Securities, is a £2.15m order to construct 77,000 sq ft of warehouse and office units in four blocks on a corner site at Brackmills, Northampton. Work has started for completion by next July.

Another negotiated design and build contract at Brackmills will provide office extensions, yard space, and a plant maintenance facility for Peter Bennie. Completion will be in June.

At the Park Farm Enterprise Zone in Wellingborough Wilcon has negotiated an £800,000 design and build contract with Wilson (Connolly) Properties to provide new warehouse and office facilities for The Leisure Circle mail order company. Work on this 38,000 sq ft complex has started, for completion by next July.

Work has also started on a three-storey traditionally constructed teaching block at the Cranfield Institute of Technology, near Bedford. The £485,000 scheme will also be completed by next July.

*

The Carroll Group has awarded **JOHN E. REEVE** a contract worth £1.13m to build an office in Borehamwood, Hertfordshire. Work has started on the three-storey development of individual, self-contained offices in a courtyard setting. The project, which will take 10 months to complete, is at 19-23 Theobald Street.

Elders' offices renovation

BOVIS CONSTRUCTION has been awarded a £1.4m management contract by Elders IXL Holdings (UK), UK arm of the Australian multi-national Elders IXL, to refurbish Elders' offices in St. James's Square, London SW1.

The project, which involves renewal work throughout the building, includes the installation of a penthouse suite on the fourth floor and new office accommodation on the basement, second and third floors.

The ground floor which, along with the other lower floors, was damaged by fire will be redecorated and will feature new gilt work.

The project, which is due for completion in March 1988, also involves refurbishment work to the exterior of the building. The natural stone will be blasted down, cleaned and all windows replaced to return the facade to its traditional Georgian style.

WORLD STOCK MARKETS

AUSTRIA
[illegible]

BELGIUM/LUXEMBOURG
[illegible]

DENMARK
[illegible]

FINLAND
[illegible]

FRANCE
[illegible]

SPAIN
[illegible]

GERMANY
[illegible]

ITALY
[illegible]

NORWAY
[illegible]

SWEDEN
[illegible]

SWITZERLAND
[illegible]

AUSTRALIA
[illegible]

NETHERLANDS
[illegible]

HONG KONG
[illegible]

SINGAPORE
[illegible]

JAPAN
[illegible]

SOUTH AFRICA
[illegible]

CANADA

TORONTO
Closing prices November 20

Sales	Stock	High	Low	Close	Chng
5847	AMCA Int	$8¾	8¾	8¾	
9608	Abitibi Pr	$23¼	22½	23	+⅛
4100	Agnico E	$22¾	22⅜	22⅝	−⅛
126520	Albrta En	$15	14⅝	15	
1100	Albrta N	$12½	12	12½	+½
538880	Alcan	$32⅛	30½	32⅛	+1½
200	Algo Cent	$18¾	18¾	18¾	+¼
6273	Algoma St	$15	14¾	14¾	
7500	Asamera	$7⅞	7⅝	7¾	−¼
87330	Atco I f	$8⅝	8	8⅝	
7071	Bk BCol	58	57	57	−1
400	BC Sugar A	$22⅝	22⅝	22⅝	−⅛
1100	BGR A	$10¼	10	10⅛	−⅛
7780	BP Canada	$19	18¼	19	+1
1000	Banister C	$8¾	8¾	8¾	+⅛
230959	Bk Montl	$25½	24⅞	25⅛	+⅜
122608	Bk NScot	$11⅞	11½	11¾	
210574	Bell Can	$36⅝	36	36⅝	+⅛
106549	Bow Valy	$12	11⅝	12	
1400	Bralorne	125	125	125	
23650	Brascan A	$26⅛	25⅞	26	+⅜
46480	Briwater	$5	480	5	
1000	Brenda M	$13½	13½	13½	−½
95011	BC ForP	$18¾	18⅝	18⅝	
21635	BC Res	88	82	82	−3
8917	BC Phone	$25⅝	25⅝	25⅝	
29	Brunswk	$11	11	11	
67600	CAE	$8⅝	7⅞	8⅝	+¼
21080	CCL B f	$8⅛	8	8⅛	+⅛
200	CIL	$26¾	26¾	26¾	+¼
6765	Cambridg	$23⅛	23	23⅛	+⅛
1079	Camp Res	185	185	185	+3
40700	Camp Soup	$17⅛	16⅞	16⅞	−⅛
42649	Campeau f	$14½	14⅛	14½	−⅛
378	CCom ex p	$14¼	14¼	14¼	−⅛
81421	CDC f	$8¾	8½	8½	−⅛
56238	C Nor West	$16½	16¼	16¼	−⅜
5050	C Packrs	$13½	13½	13½	
1300	CS Pete f	221	221	221	+1
720	Can Trust	$58	57	58	
300	CG Invest	$35½	35⅛	35½	+½
165845	CI Bk Com	$18½	17⅝	18½	+⅝
500	C Marconi	$14	14	14	−⅛
9942	C Occdental	$15⅛	14⅞	15	+⅛
985534	CP Ltd	$19⅝	18½	19	−¼
61802	CTire A f	$13⅛	12½	13	
3612	CUtil A f	$18⅝	18½	18⅝	+⅛
2750	CUtil B	$18⅝	18¼	18⅝	−⅛
223875	Canfor	$21½	20½	21⅛	+⅛
1500	Canron A	$11½	11¼	11¼	
175200	Cara	$9¼	9	9⅛	
6100	Cara A f	$8⅝	8⅝	8⅝	
35657	Carma A	20	18½	18½	−½
2665	Celanese	$17	16½	16½	−¾
9500	CentFd A	$7⅜	7	7⅜	+½
100	Centrl Tr	$16	16	16	+⅜
1500	Chieftan	$9	9	9	
1200	CHUM B f	$14⅛	14⅛	14⅛	−¼
73243	Cominco	$12⅝	11¾	12¼	+⅝
25100	Computing	480	440	440	−40
2000	Comput In	185	185	185	−5
3400	Con Bath A	$16¼	16	16	−¼
1000	CDistb B f	$5¼	5¼	5¼	
600	Cons Gas	$23¾	23½	23¾	+⅛
200	Con Glass	$19¾	19½	19¾	+⅝
300050	CTL Bank	330	330	330	−5
300	Conwst B	$9	9	9	−½
3035	Corby	$17¾	17½	17¾	+¼
1200	Costain Ltd	$8½	8¼	8¼	
42800	Coseka R	55	50	52	−3
200	Crownx	$9⅝	9⅝	9⅝	−⅛
11240	Crownx A f	490	480	480	−15
10500	Czar Res	125	120	120	−15
106986	Denison A p	$5	480	5	
107925	Denison B f	480	475	475	
2500	Develcon	250	250	250	+15
7000	Dickisn A f	$8½	8⅛	8½	+¼
500	Dickisn B	$10¼	10	10¼	
6155	Dofasco	$23½	23	23¼	−¼
231829	Dome Pete	102	95	100	−1
4539	D Textile	$15⅛	14¾	15⅛	+⅜
20481	Domtar	$12¾	12½	12⅝	+⅛
14500	Donohue	$27	26½	26½	−½
52490	Du Pont A	$25¼	25¼	25¼	−⅜
10406	Dylex A	$8¼	8	8¼	+¼
115710	Echo Bay	$24⅞	23⅞	24⅞	+¾
100	Emco	$12	12	12	
11750	FCA Intl	$13	12½	12½	−⅛
180074	Ficnbrdg	$19¼	18¾	19⅛	
1663	Fed Ind A	$13½	13⅜	13½	+⅛
1600	Fed Pion	$8¾	8¾	8¾	+¼
2200	FCity Fin	$14	13¾	14	+⅛
145	Ford Cnda	$125	125	125	−1
11250	Gandalf	$8⅛	8	8	−⅛
1100	Geac Comp	145	140	145	
8900	Gendis A	$14¾	14¼	14¼	−½
300	Giant Yk	$20	19½	19½	+¼
1300	Gibraltar	$9⅝	9¼	9⅝	+⅛
23000	Goldcorp f	$7¾	7⅝	7¾	
900	Grafton A f	$9	8⅞	9	+¼
5300	GL Forest	$40	40	40	
2511	Greyhnd	$19½	19⅜	19½	
700	Hawker	$20	20	20	
500	Hayes D	$10¼	10¼	10¼	
5100	Hees Intl	$19	18½	19	+¼
1016	H BayMn s	$8⅛	8⅛	8⅛	−⅛
1919	H Bay Co	$18¼	18¼	18¼	
89804	Imasco	$25½	25	25½	+¼
149151	Imp Oil A	$50½	48¼	49⅞	+⅜
156847	Inco	$20⅝	19½	20⅝	+⅛
7400	Indal	$10¾	10⅝	10¾	+¼
1200	Inland Gas	$11¾	11¾	11¾	−⅛
2800	Innopac	$10	9¾	9¾	−⅛
750	Inter City	$15¼	15	15¼	+¼
115596	Intl Thom	$10¾	10⅝	10¾	+⅛
4325	Intpr Pipe	$40⅞	40¼	40¼	−¼
559	Ipsco	$10	10	10	
5200	Ivaco A f	$10	9¾	10	+⅛
16820	Jannock	$15⅝	15¼	15½	−⅛
7709	Kerr Add	$18⅞	18¾	18⅞	−⅛
200	Kiena Gld	$14½	14	14½	+1
15230	Labatt	$24⅜	24⅛	24⅜	
142984	LL Lac	$11½	10⅝	11½	+⅛
41000	Lacana	$11½	11¼	11⅜	−⅛
94880	Laidlaw A	$15⅞	15½	15¾	
424640	Laidlw B f	$15⅛	14¾	15	−¼
11100	Leigh Inst	395	390	395	+5
10400	Loblaw Co	$11	10⅝	10⅞	
184300	Lumonics	$5½	5¼	5½	
200	MICC	$10½	10½	10½	+1
82950	Mclan H X	$18⅜	17⅞	18⅜	+½
400	Mcln HY f	$18½	18½	18½	+½
209417	Macmilan	$19¼	18¾	19	−¼
33601	Magna A f	$10	9¾	10	+¼
733	Maritime f	$14¾	14¾	14¾	+⅛
3200	Mc Intyre	$37¾	37½	37¾	+¾
8900	Minrl Res	280	280	280	−20
10250	Mitel Corp	345	335	345	+5
9300	Molson A f	$20¾	20½	20½	
23000	M Trusco	$12	12	12	
126370	Moore	$24½	23⅝	24½	+½
54202	Nat Bk Can	$10¼	10	10¼	+⅛
4900	Nt Vg Trco	$17	16⅝	17	
2900	Nfl CapA f	$7⅛	7	7⅛	+⅛
1200	Nfld LP A	$18⅜	18¼	18¼	−¼
305835	Noranda	$21⅜	20½	21⅜	
25834	Norcen	$16¼	15¾	16⅛	+¼
58771	Norcn ord f	$14⅛	13⅞	14	
28167	NC Oils	$17	16½	17	+¼
239731	Nor Tel	$21⅞	21	21⅝	+⅜
61400	Northgat	$7	6⅞	7	+¼
338000	Nowsco W	$12¼	11¾	11¾	−⅞
78299	Nu West	27	26	27	
182400	Numac	$8½	8¼	8½	+⅛
22855	Oakwood	360	290	350	+70
14400	Oakwd A f	250	220	250	+40
54650	Ocelot B f	$7	6	6⅝	+⅜
3300	Omega Hyd	$6¾	6⅛	6⅝	+⅛
17240	Oshawa A f	$20¼	19¾	20	+⅛
46578	PacW Airl	$17⅝	17⅜	17⅝	
207809	Pgurin A f	$7¾	7⅜	7¼	−⅜
1830	Pamour	$7⅞	7½	7⅞	+⅜
1475	PanCan P	$24½	24½	24½	−¾
65003	Pegasus	$18⅝	18	18⅛	−¼
800	Pembina	$15	15	15	
20700	Poco Pet	$10⅜	10¼	10½	
130686	Powr Cor f	$12⅞	12½	12⅞	+¼
16100	Provigo	$8¼	8	8¼	+¼
2400	Que Sturg	320	305	320	+5
175850	Ranger	$5⅛	480	5	+5
2900	Rayrock f	$8¾	8½	8⅝	
8610	Redpath	$9⅛	9	9⅛	+⅛
4600	Regionl R	160	155	155	−5
1700	Reitman A f	$17⅝	17½	17½	
6739	Renaissnce	$12	11½	11⅞	−⅛
11000	Repap f	$9⅝	9⅜	9⅝	
20300	Rio Algom	$17⅛	17	17⅛	−⅜
200	Rogers A	$19¾	19¾	19¾	+¼
7800	Rogers B f	$19⅝	19	19⅝	+⅜
4412	Rothman	$41½	41½	41½	−1½
203089	Royal Bnk	$27⅛	26½	26¾	+¼
27401	RyTrco A	$13¾	13⅜	13⅝	+⅜
51006	Royex	$6⅜	6	6⅛	−⅛
1200	SHL Syst	$16¾	16½	16¾	
700	StL CemA f	$10⅝	10⅛	10⅛	−¼
91466	Sceptre	335	325	325	−15
1850	Scot Paper	$15⅝	15½	15½	−¼
4200	Scotts f	$9⅝	9⅝	9⅝	−⅛
300	Scotts C	$10	10	10	−⅛
304171	Seagram	$72	69½	72	−1
26889	Sears Can	$8	7¾	8	+⅛
1436	Selkirk A f	$20	19½	20	+¼
261897	Shell Can	$30	29	29¾	−¼
7825	Sherritt	$5⅜	5	5⅜	+¼
88545	Southm	$17	16⅝	17	
12700	Spar Aero f	$13¼	13	13	−¼
103817	Stelco A	$17½	17¼	17⅜	−⅜
71103	Teck B f	$33⅞	33½	33½	−⅜
12300	Terra Mn	110	102	102	−4
9425	Texaco Can	$26¼	25½	26¼	
80700	Thom N A	$26¼	25½	25¾	−½
121343	Tor Dm Bk	$24¾	23½	24¾	+¾
300	Tor Sun	$17½	17½	17½	
9800	Torstar B f	$24	23½	24	+⅛
8100	Total Pet	$18⅛	17⅞	18⅛	+⅜
100	Trns Mt	$12⅝	12⅝	12⅝	−⅜
63091	TrnAlta UA	$28¾	28¼	28½	
120851	TrCan PL	$14½	14¼	14½	
15550	Trilon A	$15½	15¼	15⅜	−⅛
7634	Trimac	370	360	370	
12500	Trinity Res	50	50	50	
3553	Trizec A f	$23½	23	23	
100	Trizec B	$23½	23½	23½	−½
10125	Ulster P	195	190	190	−5
1252	U Entrprise	$9⅛	9	9	
800	U Canso	62	62	62	−3
16700	Vulcan Ind	180	175	178	−2
1700	Wajax A	$10½	10½	10½	
54800	Wcoast T	$15⅜	15⅛	15⅛	−⅛
4100	Westmin	$8½	8½	8½	−⅛
7080	Weston	$32	31	31	−1
2000	Woodwd A	$6½	6½	6½	+⅛

F—No voting rights or restricted voting rights.

MONTREAL
Closing prices November 20

Sales	Stock	High	Low	Close	Chng
28547	Bank Mont	$25½	24⅞	25½	+½
34500	BombrdrA	$07¼	07⅛	07¼	+¼
93862	BombrdrB	$07¼	06⅞	07⅛	+⅛
6750	CB Pak	$14⅞	14½	14⅝	−⅛
17160	Cascades	$08⅜	08¼	08⅜	
7700	ConBath	$16⅛	16	16	−⅛
12540	DomTxtA	$15⅛	14¾	15	
800	MntTrst	$12½	12	12½	+⅜
51716	NatBk Cda	$10¼	09⅞	10¼	+⅛
20862	Noverco	$11⅛	11¼	11⅜	+⅜
109001	Power Corp	$12⅞	12½	12¾	
11121	Provigo	$08⅛	08	08	+⅛
8900	Repap Entr	$09⅝	09⅜	09⅝	+⅛
23278	Royal Bank	$27⅛	26½	26¾	+½
1700	SteinbrgA	$26¾	26½	26¾	−⅛
8295	Videotron	$09½	09¼	09⅜	

Total Sales 5,784,549 shares

OVER-THE-COUNTER *Nasdaq national market, closing prices, November 20*

Continued from Page 37

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Indices

NEW YORK — DOW JONES
[illegible]

CANADA — TORONTO
[illegible]

NEW YORK ACTIVE STOCKS
[illegible]

Closing prices, November 20

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25 3/8	14 3/4	AAR s	.36	2.0	17	321	17 7/8	17 1/4	17 7/8	+1/4
32 1/2	17 1/2	AFG s	.16	.7	8	553	23 5/8	22 1/2	23 3/8	+7/8
27	10 1/2	AGS s			13	297	15	14 1/4	14 7/8	+1/8
10 1/2	6 1/2	AMCA				8	6 5/8	6 5/8	6 5/8	−1/4
9 5/8	3 1/4	AM Intl			45	2040	5 1/2	4 7/8	5	−3/8
65 1/2	29 1/2	AMR			9	4454	31 3/4	30 3/4	31 1/4	−1/4
27 1/2	24 7/8	ANR pf	2.67	10.		2	25 3/4	25 3/4	25 3/4	
12 1/4	6 3/8	ARX s			7	112	6 7/8	6 5/8	6 7/8	−1/8
73 1/2	34 1/2	ASA	2a	4.5		559	45	44	44 1/8	−3/8
22 3/8	9 1/2	AVX			17	220	13 1/8	12 3/4	13 1/8	+1/8
67	40	AbtLab	1	2.2	18	3854	46 1/2	44 7/8	46 3/8	+5/8
28	15 3/8	Abitibi g				39	17 1/2	17 1/2	17 1/2	
16 3/4	8 1/2	AcmeC	.40	4.4	9	148	9	8 3/4	9	+3/8
10 1/2	6 1/8	AcmeE	.32b	4.3	28	2	7 1/2	7 1/2	7 1/2	+1/4
19 1/2	13 7/8	AdaEx	3.34e	19.		178	17 3/4	17 3/8	17 3/4	+1/4
19 1/2	7 3/4	AdmMl s	.24	2.7	7	37	9	8 3/4	9	
35	14 3/8	AdvSys			16	587	25	23 3/4	24 3/4	+1/4
24 7/8	9 1/2	AMD				4992	10 1/2	d 9 3/8	9 7/8	
56 3/4	30 1/2	AMD pf	3	9.8		684	31	d30 3/8	30 5/8	−1/4
11 7/8	4 5/8	Adobe				541	4 7/8	4 5/8	4 7/8	
20 1/2	15 1/2	Adob pf	1.84	11.		17	17 1/8	16 1/2	16 1/2	−5/8
21 7/8	17	Adob pf	2.40	12.		69	20	18 1/2	19 3/4	−3/8
15	6 1/8	Advest	.12a	1.5	6	450	7 7/8	7 3/4	7 7/8	−1/8
68 1/4	46	AetnLf	2.76	5.6	7	2312	49 1/4	47 3/4	49	+1/4
63 1/2	30 3/8	AflPb s	.32	.7	7	228	46 1/2	45 1/2	45 5/8	−1 1/8
26 7/8	14 5/8	Ahmans	.88	6.0	6	2198	14 7/8	d14 1/4	14 3/4	+1/8
5 3/8	1 3/4	Aileen				69	2 1/2	2 3/8	2 3/8	−1/4
53 7/8	29	AirPrd	1	2.8	12	1504	35 5/8	34 1/8	35 1/4	+3/4
38	11 1/2	AirbFrt	.60	4.8	8	357	12 1/2	12	12 3/8	−1/8
16 1/2	7 5/8	Airgas n			14	274	9 3/4	9 1/4	9 3/8	−1/2
19 1/2	13 1/2	Airlease	2.11e	13.	9	36	15 7/8	15 5/8	15 3/4	+1/8

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NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

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Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices November 20

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OVER-THE-COUNTER

Nasdaq national market, closing prices, November 20

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Continued on Page 35

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Long live the all-American cheese pizza

BY COLIN MILLHAM

IT IS hard to put into words the general feelings of frustration and annoyance felt by dealers on the subject of the US budget deficit.

To outline the problem it is necessary to understand that at the beginning of last week the market had high hopes the budget for the present financial year would be cut by \$30bn. This compared with the Gramm Rudman requirement of \$23bn.

By the end of the week hopes had all but faded that there would by anything near a \$30bn cut, while some economists said there was no point in severely cutting back the budget programme if the economy was running into a recession.

There were various comments on the situation, including the suggestion that in terms of the size of the total deficit \$7bn was neither here or there.

Probably the nearest reaction to the mood of the market was made by EBC Ambro Bank on its Reuter screen on Friday, but the pages of the Financial Times are not the place to repeat such comments.

Mellon Bank was almost as scathing in its attack on the attitude of the US budget negotiators, and said "any US deal will appear to be a fudge."

Nomura Research Institute was no more complimentary, saying the discussions highlight just what a complete and utter shambles economic policy making in Washington has become.

Nomura claimed that Congress has been debating minor and often dubious savings, and gave as an example cheese pizzas. Apparently negotiators have agreed on a labelling requirement for pizzas. This is intended to encourage a switch to the all-American pizza, and away from inferior substitutes, reducing subsidies to dairy producers.

Nomura adds it is hardly surprising that negotiations on the overall budget are taking weeks.

There are no important US economic figures this week, and assuming some agreement on the budget deficit, this will leave the market with little to look for. Attention may turn to a possible meeting of the Group of Seven to discuss the world's economic problems.

If the US fails to come up with a budget cutting package regarded as satisfactory by Japan, Canada and European G7 members, it is unlikely there will be any early meeting of finance ministers from leading industrial countries.

There is no point in a meeting of the G7 unless agreement can be reached on measures to stabilize the foreign exchanges. Or put in other words a way can be found to provide underlying support for the dollar. It has been assumed this would involve a coordinated cut of interest rates.

Among this week's news the UK trade figures are likely to prove as important as any, but will almost certainty not result in a change of economic policy.

A trade deficit in the region of £1bn has been widely forecast and a current account shortfall of around £400m.

Nomura forecasts a visible deficit of £1,150m and a current account deficit of £550m. Greenwell Montagu Research expects £1,050m and £450m respectively, and Phillips and Drew £950m and £350m.

James Capel expects £830m and £230m and Morgan Grenfell suggests £800m and £200m.

In the present circumstances figures in this region will have no impact, but simply keep attention turned towards the US and the next move in the saga of the budget deficit

£ IN NEW YORK

Nov 20	Close	Previous Close
£ Spot	1.7775-1.7785	1.7770-1.7780
1 month	0.32-0.30pm	0.30-0.29pm
3 months	0.65-0.63pm	0.64-0.62pm
12 months	1.82-1.75pm	1.83-1.76pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Nov 20	Previous
8.30	am	75.6	75.5
9.00	am	75.6	75.5
10.00	am	75.6	75.5
11.00	am	75.6	75.5
Noon		75.6	75.5
1.00	pm	75.6	75.5
2.00	pm	75.8	75.5
3.00	pm	75.8	75.4
4.00	pm	75.7	75.4

CURRENCY RATES

Nov 20	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	-	0.75785	0.690601
U.S Dollar	6	1.3525	1.23790
Canadian $	8.75	*	1.62227
Austrian Sch.	4	15.9343	14.5C82
Belgian Franc	7¼	47.4505	43.1873
Danish Krone	7	8.7361	7.95043
Deutsche Mark	3	2.2651	2.06197
Neth.Guilder	4½	2.5502	2.32082
French Franc	9½	7.6953	7.01396
Italian Lira	12½	N/A	1519.53
Japanese Yen	2½	183.20	166.684
Norway Krone	8	8.6502	7.90091
Spanish Peseta	-	N/A	139.140
Swedish Krona	[illegible]	N/A	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]
Greek Drach.	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	N/A	[illegible]

*CS/SDR rate for Nov.19 1.77092

CURRENCY MOVEMENTS

Nov. 20	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100).

OTHER CURRENCIES

Nov. 20	£	$
[illegible]	[illegible]	[illegible]

*Selling rate

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.7790	1.7760	1.7755	1.7674	1.7612
D-mark	2.9925	2.9773	2.9560	2.9240	2.8594
French Fr.	10.158	10.157	10.157	10.156	10.155
Swiss Fr.	2.4550	2.4430	2.4250	2.3983	2.3428
Yen	240.75	239.70	238.01	235.45	230.69

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Nov 20	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1873	+1.72	+0.93	±1.5344
Danish Krone	7.85212	7.95043	+1.25	+0.46	±1.5404
German D-Mark	2.05853	2.06197	+0.17	-0.62	±1.0981
French Franc	6.90403	7.01396	+1.59	+0.80	±1.3674
Dutch Guilder	2.31943	2.32082	+0.06	-0.73	±1.5012
Irish Punt	0.768411	0.775212	+1.02	+0.23	±1.6684
Italian Lira	1483.58	1519.53	+2.42	+2.07	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Nov 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7785-1.7995	1.7785-1.7795	0.31-0.29cpm	2.02	0.67-0.63pm	1.46
Canada	2.3377-2.3587	2.3390-2.3400	0.18-0.09cpm	0.69	0.21-0.10pm	0.27
Netherlands	3.36-3.37½	3.36¾-3.37¾	1¼-1cpm	4.01	3¼-3pm	3.71
Belgium	62.05-62.27	62.05-62.15	13-10cpm	2.22	33-27pm	1.93
Denmark	11.50¾-11.55	11.53¾-11.54¾	1¼-2oredis	-1.69	3¾-4¾dis	-1.45
Ireland	1.1150-1.1300	1.1260-1.1270	0.05cpm-0.01dis	0.21	par-0.15dis	-0.27
W. Germany	2.98¼-2.99¾	2.98¾-2.99¾	1¼-1¼pfpm	6.02	3¾-3¼pm	4.93
Portugal	239.94-243.70	239.95-240.95	100-150cdis	-6.24	325-425dis	-6.24
Spain	200.94-201.76	200.95-201.25	80-115cdis	-5.82	170-190dis	-3.58
Italy	2195¼-2204	2202¼-2203¼	1-7liredis	-2.19	10-20dis	-2.72
Norway	11.39½-10.17½	11.39½-11.40½	4¾-5oredis	-5.39	16¼-17dis	-5.86
France	10.13¾-1-.17½	10.15¾-10.16¾	¼pm-¼dis	-0.22	¾-1½dis	-0.44
Sweden	10.75½-10.83	10.75¾-10.76¾	par-¼oredis	-0.23	¼-1¼dis	-0.42
Japan	243¼-241¼	240¼-241¼	1¼-1¼ypm	5.30	2¾-2¼pm	4.57
Austria	20.98-21.04	21.01-21.04	8¾-7¾gropm	4.49	22-18pm	3.89
Switzerland	2.44½-2.46	2.45-2.46	1¼-1¼cpm	7.03	3¼-2¾pm	4.89

Belgian rate is convertible francs. Financial franc 62.30-62.40 . Six-month forward dollar 1.19-1.14cpm 12-month 1.83-1.73cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Nov 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 35.00-35.10.

EURO-CURRENCY INTEREST RATES

Nov 20	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 8¾-8½ per cent; three years 9-8¾ per cent; four years 9¼-9 per cent; five years 9¼-9¼ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	0.454	0.808	1.358	109.4	4.611	1.114	1.529	1000.	1.062	28.19
C $	0.427	0.760	1.279	102.9	4.342	1.049	1.439	941.7	1.	26.54
B Fr.	1.610	2.865	4.819	387.7	16.36	3.953	5.423	3548.	3.767	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Mar	Puts-Last Dec	Puts-Last Mar
116	6.44	7.32	0.00	0.50
113	4.44	5.61	0.00	1.15
120	2.46	4.38	0.02	1.56
122	0.55	3.25	0.11	2.43
124	0.06	2.32	1.26	3.50
126	0.02	1.48	3.22	5.02
128	0.00	1.12	5.20	6.30
130	0.00	0.52	7.20	8.06

Estimated volume total, Calls 2860 Puts 1416
Previous day's open int: Calls 40897 Puts 33747

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Mar	Puts-Last Dec	Puts-Last Mar
82	7.46	7.31	0.00	0.47
84	5.46	5.61	0.00	1.13
86	3.46	4.28	0.00	1.44
88	1.46	3.07	0.00	2.23
90	0.00	2.11	0.18	3.27
92	0.00	1.26	2.18	4.42
94	0.00	0.57	4.18	6.09
96	0.00	0.35	6.18	7.51

Estimated volume total, Calls 205 Puts 70
Previous day's open int: Calls 3180 Puts 2128

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Nov	Calls-Last Dec	Puts-Last Nov	Puts-Last Dec
18000	0.00	2.80	17.80	20.60
18250	0.00	2.34	20.30	22.64
18500	0.00	1.96	22.80	24.74
18750	0.00	1.61	25.30	26.92
19000	0.00	1.33	27.80	29.13
19250	0.00	1.09	30.30	31.39
19500	0.00	0.89	32.80	33.69
19750	0.00	0.72	35.30	36.02

Estimated volume total, Calls 1 Puts 4
Previous day's open int: Calls 47 Puts 141

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-Last Dec	Jan	Feb	Mar	Puts-Last Dec	Jan	Feb	Mar
1.50	28.60	-	-	28.60	0.00	-	[illegible]	[illegible]
1.55	23.60	23.60	-	23.60	0.00	0.01	[illegible]	[illegible]
1.60	18.60	18.60	-	18.60	0.00	0.07	[illegible]	[illegible]
1.65	13.60	13.60	13.60	13.70	0.02	0.29	[illegible]	[illegible]
1.70	8.60	9.10	9.45	9.76	0.19	0.93	[illegible]	[illegible]
1.75	4.40	5.50	6.05	6.50	1.02	2.33	[illegible]	[illegible]
1.80	1.64	2.91	3.52	4.02	3.26	4.74	[illegible]	[illegible]

Estimated volume total, Calls 15 Puts 5
Previous day's open int: Calls 396 Puts 1385

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls-Last Dec	Jan	Feb	Mar	Puts-Last Dec	Jan	Feb	Mar
1.650	12.85	12.90	0	13.15	0.10	0.40	[illegible]	[illegible]
1.675	10.35	10.60	10.90	11.00	0.20	0.60	[illegible]	[illegible]
1.700	8.05	8.45	8.85	9.05	0.30	1.00	[illegible]	[illegible]
1.725	5.85	6.60	7.05	7.40	0.40	1.35	[illegible]	[illegible]
1.750	3.90	5.05	5.40	5.85	1.00	2.10	[illegible]	[illegible]
1.775	2.30	3.45	4.05	4.50	1.90	3.15	[illegible]	[illegible]
1.800	1.35	2.40	2.95	3.40	3.25	4.55	[illegible]	[illegible]

Volume total, Calls 6808 Puts 865
Previous day's open int: Calls 87,974 Puts 75,281

LIFFE-EUROSDOLLAR OPTIONS / LIFFE SE £/$ OPTIONS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Dec	122-22	123-12	122-21	122-20
Mar	122-23	123-11	122-24	122-20

Estimated Volume 26707 (19212)
Previous day's open int. 27848 (27861)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Dec	106.92	107.09	106.77	106.23
Mar	106.44	106.59	106.20	105.69

Estimated Volume 738 (800)

THREE MONTH STERLING / FT-SE 100 INDEX / THREE MONTH EURODOLLAR / US TREASURY BONDS

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY FUTURES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Close	High	Low	Prev.
Dec	1.7858	1.7910	1.7910	1.7780
Mar	1.7780	-	-	1.7651
Jun	1.7732	-	-	1.7605

Estimated volume 5 (0)
Previous day's open int. 147 (147)

CHICAGO

U.S. TREASURY BONDS / U.S. TREASURY BILLS / CERTIFICATES OF DEPOSIT / THREE-MONTH EURODOLLAR / JAPANESE YEN / DEUTSCHE MARK

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM)

	Close	High	Low	Prev.
Dec	0.7285	0.7373	0.7170	0.7280
Mar	0.7345	0.7433	0.7230	0.7342
Jun	0.7410	0.7495	0.7315	0.7408
Sep	0.7480	0.7532	0.7410	0.7478
Dec	0.7517	0.7517	0.7517	0

STANDARD & POORS 500 INDEX
$500 times index

	Close	High	Low	Prev.
Dec	241.90	243.00	234.00	238.80
Mar	242.90	243.80	236.00	239.90
Jun	244.00	245.20	236.90	241.40
Sep	246.50	247.60	239.50	244.00

EUROPEAN OPTIONS EXCHANGE

Series		Nov 87 Vol	Last	Feb 88 Vol	Last	May 88 Vol	Last	Stock
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ROYAL DUTCH P	FL. 200	481	10.50	122	15.10	12	20	Fl. 198.50
ROBECO C	FL. 85	61	4.20	-	-	-	-	FL. 79.80
ROBECO P	FL. 90	80	11.50	-	-	-	-	Fl. 79.80
UNILEVER C	FL. 124	334	2.90	-	-	-	-	FL. 101.50
UNILEVER P	FL. 120	14	22	1	28	305	28.50	FL. 101.50

TOTAL VOLUME IN CONTRACTS : 40,459

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	9	● Charterhouse Bank	9	Nat. Bk. of Kuwait	9
Adam & Company	9	Citibank NA	9	NatWestminster	9
Allied Arab Bk	9	City Merchants Bank	9	Northern Bank Ltd	9
Allied Dunbar & Co	9	Clydesdale Bank	9	Norwich Gen. Trust	9
Allied Irish Bank	9	Comm. Bk. N. East	9	PK Finans. Int.(UK)	9½
American Exp. Bk.	9	Consolidated Cred.	9	Provincial Trust Ltd	10½
Amro Bank	9	Co-operative Bank	*9	R. Raphael & Sons	9
Henry Ansbacher	9	Cyprus Popular Bk	9	Roxburghe Guarantee	10½
ANZ Banking Group	9	Duncan Lawrie	9	Royal Bk of Scotland	9
Associates Cap Corp	10	Equatorial Trust plc	9	Royal Trust Bank	9
Authority & Co Ltd	9	Exeter Trust Ltd.	9½	Smith & Williamson Secs.	9
Banco de Bilbao	9	Financial & Gen. Sec.	9	Standard Chartered	9
Bank Hapoalim	9	First Nat. Fin. Corp.	10½	TSB	9
Bank Leumi (UK)	9	First Nat. Sec. Ltd.	10½	UDT Mortgage Exp.	9.11
Bank Credit & Comm.	9	● Robert Fleming & Co.	9	United Bk of Kuwait	9
Bank of Cyprus	9	Robert Fraser & Ptrs.	10	United Mizrahi Bank	9
Bank of Ireland	9	Girobank	9	Unity Trust Plc	9
Bank of India	9	Grindlays Bank	9	Western Trust	9
Bank of Scotland	9	● Guinness Mahon	9	Westpac Bank Corp.	9
Banque Belge Ltd	9	HFC Trust & Savings	9	Whiteaway Laidlaw	9½
Barclays Bank	9	● Hambros Bank	9	Yorkshire Bank	9
Benchmark Tst Ltd	9	Heritable & Gen. Tst.	9		
Beneficial Trust Ltd	10	● Hill Samuel	§9		
Berliner Bank AG	9	C. Hoare & Co.	9		
Brit. Bk of Mid East	9	Hongkong & Shangh.	9		
Brown Shipley	9	Lloyds Bank	9		
Business Mtge Tst.	9	Meghraj & Sons Ltd	9		
CL Bank Nederland	9	Midland Bank	9		
Central Capital	9	● Morgan Grenfell	9		
Cater Ltd	9	Mount Credit Cpn Ltd	9		

● Members of the Accepting Houses Committee. * 7 day deposits 4% Sunrise 6.66%. Top Tier-£2,500+ at 3 months' notice 8.31%. At call when £10,000+ remains deposited. § Mortgage base rate. § Demand deposit 3.99%. Mortgage 11.125%

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	FRIDAY NOVEMBER 20 1987 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY NOVEMBER 19 1987 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1987 High	1987 Low	Year ago (approx)
Australia (89)	94.34	-3.5	78.62	91.43	4.54	97.78	81.42	93.69	180.81	85.80	87.92
Austria (16)	91.53	-0.8	76.28	79.94	2.60	92.26	76.82	80.60	102.87	85.53	94.00
Belgium (48)	102.16	-1.1	85.14	88.30	5.34	103.28	86.00	89.78	134.89	96.19	93.00
Canada (127)	100.73	+0.0	83.95	95.81	3.23	100.76	83.90	95.65	141.78	98.15	98.49
Denmark (38)	107.23	-1.4	89.36	94.58	3.13	108.75	90.55	95.84	124.83	98.18	94.94
France (120)	82.10	-2.4	68.42	73.54	3.74	84.14	70.06	75.20	121.82	77.39	94.79
West Germany (93)	74.14	-2.0	61.78	64.85	2.94	75.66	63.00	66.08	104.95	68.91	93.70
Hong Kong (46)	86.00	-1.2	71.67	85.72	5.75	87.09	72.52	87.09	158.68	75.82	87.47
Ireland (14)	99.85	-1.5	83.21	88.35	5.08	101.35	84.39	90.44	160.22	96.20	88.27
Italy (94)	74.56	-3.2	62.14	68.96	2.78	77.04	64.15	71.11	112.11	72.04	93.87
Japan (457)	136.66	-0.5	113.89	116.96	0.59	137.31	114.34	117.30	161.28	100.00	87.94
Malaysia (36)	104.03	+0.2	86.70	99.97	3.64	103.87	86.49	99.81	193.64	98.24	100.13
Mexico (14)	126.20	-15.4	105.17	355.30	1.08	149.21	124.25	328.32	422.59	99.72	92.36
Netherland (37)	94.20	-2.9	78.51	81.37	5.53	97.06	80.82	83.77	131.41	87.70	96.94
New Zealand (23)	77.04	-1.0	64.20	66.10	4.72	77.85	64.83	66.80	138.99	75.99	93.53
Norway (24)	102.44	-4.6	85.37	89.09	3.06	107.38	89.41	93.53	185.01	96.03	103.10
Singapore (27)	99.15	+0.2	82.63	92.59	2.58	98.95	82.39	92.59	174.28	90.19	100.07
South Africa (61)	126.30	+0.2	105.26	84.97	4.87	126.02	104.93	88.16	198.09	100.00	100.71
Spain (43)	115.74	-2.7	96.45	99.30	4.13	118.95	99.04	102.23	168.81	100.00	88.55
Sweden (34)	96.91	-0.5	80.76	86.79	2.63	97.42	81.12	87.54	136.64	88.50	101.25
Switzerland (53)	80.20	-1.3	66.83	68.64	2.43	81.28	67.68	69.39	111.11	73.65	93.65
United Kingdom (332)	117.91	-0.7	98.26	98.26	4.67	118.71	98.85	98.85	162.87	99.65	91.81
USA (582)	98.69	+0.7	82.25	98.69	3.73	97.98	81.59	97.98	137.42	92.83	100.43
Europe (946)	96.26	-1.5	80.22	82.73	4.06	97.74	81.39	83.94	130.02	92.25	93.26
Pacific Basin (678)	133.10	-0.6	110.92	114.84	0.80	133.86	111.46	115.26	158.77	100.00	88.03
Euro-Pacific (1624)	118.40	-0.9	98.67	102.03	1.87	119.45	99.46	102.77	143.65	100.00	90.10
North America (709)	98.80	+0.7	82.34	98.55	3.71	98.13	81.71	97.87	137.55	93.20	100.33
Europe Ex. UK (614)	82.83	-2.2	69.03	73.06	3.52	84.74	70.56	74.68	111.97	78.89	94.18
Pacific Ex. Japan (221)	90.09	-2.3	75.08	87.13	4.82	92.21	76.78	88.75	164.03	83.17	89.10
World Ex. US (1826)	117.87	-0.9	98.23	101.79	1.94	118.89	98.99	102.53	143.38	100.00	90.51
World Ex. UK (2076)	109.72	-0.3	91.44	101.09	2.33	110.02	91.61	101.28	138.82	100.00	0.00
World Ex. So. Af. (2347)	110.33	-0.3	91.95	100.88	2.54	110.68	92.16	101.08	139.47	100.00	94.33
World Ex. Japan (1951)	97.88	-0.2	81.57	92.52	3.88	98.08	81.67	92.69	134.22	95.64	97.46
The World Index (2408)	110.43	-0.3	92.03	100.78	2.56	110.78	92.25	101.01	139.73	100.00	94.37

Base values: Dec 31, 1986 = 100
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Malaysian and Singapore prices were unavailable on November 20.
Constituent Changes:Deletion:Toshin Steel(Japan)

MONEY MARKETS

Still debating a UK base rate cut

THE MOST important UK economic news this week will probably be the trade figures. A current account deficit is widely forecast, which coupled with last week's announcement of high money supply growth, could be regarded as something of a problem.

But the US budget deficit will continue to outweigh all other factors. A week dollar and the fragile state of the equity market should prevent any upward pressure on interest rates.

UK clearing bank base lending rate 9 per cent from November 5

If the US budget cutting package is seen as satisfactory there may be agreement for a coordinated cut in world interest rates, while the strength of sterling could also be a greater problem than excess money supply growth.

A further decline by the dollar will soon push the pound through \$1.80, and may even send it up towards \$1.85.

Nomura suggests that in spite of strong money supply growth the Bank of England may be forced to concede another cut of ½ p.c. in bank base rates.

A rate of 8½ p.c. is regarded as the probable floor however. Money market rates took a fairly neutral view last week, and on Friday funds were offered at 9 p.c. from overnight through to six months.

The only hint of nervousness about rates was seen in the longer periods, with nine-month money offered at 9$\frac{1}{16}$ p.c. and 12-month at 9⅛ p.c.

Tomorrow's UK trade figures may change sentiment, but it seems unlikely that domestic events, including the trade news, will outweigh the wider economic situation involving the US budget.

FT LONDON INTERBANK FIXING

(11.00 a.m. Nov.20) 3 months US dollars		6 months US Dollars	
bid 7⅜	offer 7½	bid 7⅜	offer 7½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for \$10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Nov.20	Nov.13		Nov.20	Nov.13
Bills on offer	£100m	£100m	Top accepted rate of discount	8.4431%	8.6539%
Total of applications	£603m	£721m	Average rate of discount	8.4431%	8.5170%
Total allocated	£100m	£100m	Average yield	8.60%	8.70%
Minimum accepted bid	97.895%	97.865%	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	N/A	0%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	Nov.20	change
[illegible]	[illegible]	[illegible]

MONEY RATES

NEW YORK (4pm)

		Treasury Bills and Bonds			
Prime rate	8.75	One month	3.31	Three year	7.92
Broker loan rate	8.00	Two month	5.18	Four year	8.13
Fed.funds	6⅞-7	Three month	5.88	Five year	8.31
Fed.funds at intervention	6⅞	Six month	6.53	Seven year	8.58
		One year	6.86	10-year	8.76
		Two year	7.63	30-year	8.85

September 22	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.45-3.55	3.55-3.70	3.80-3.95	3.85-4.00	3.95-4.10	4.50
Paris	8.5625	8.6875	8.75	8.8125	8.9375	8.25
Zurich	1.00	2.875	-	3.875	-	-
Amsterdam	4.75	4.9375	-	5.125	-	-
Tokyo	3.40625	3.84375	-	3.96875	-	-
Milan	10.25	11.25	-	11.625	-	-
Brussels	4.95	6.6875	-	6.9375	-	-
Dublin	8.125	8.9375	9.125	9.25	9.50	-

LONDON MONEY RATES

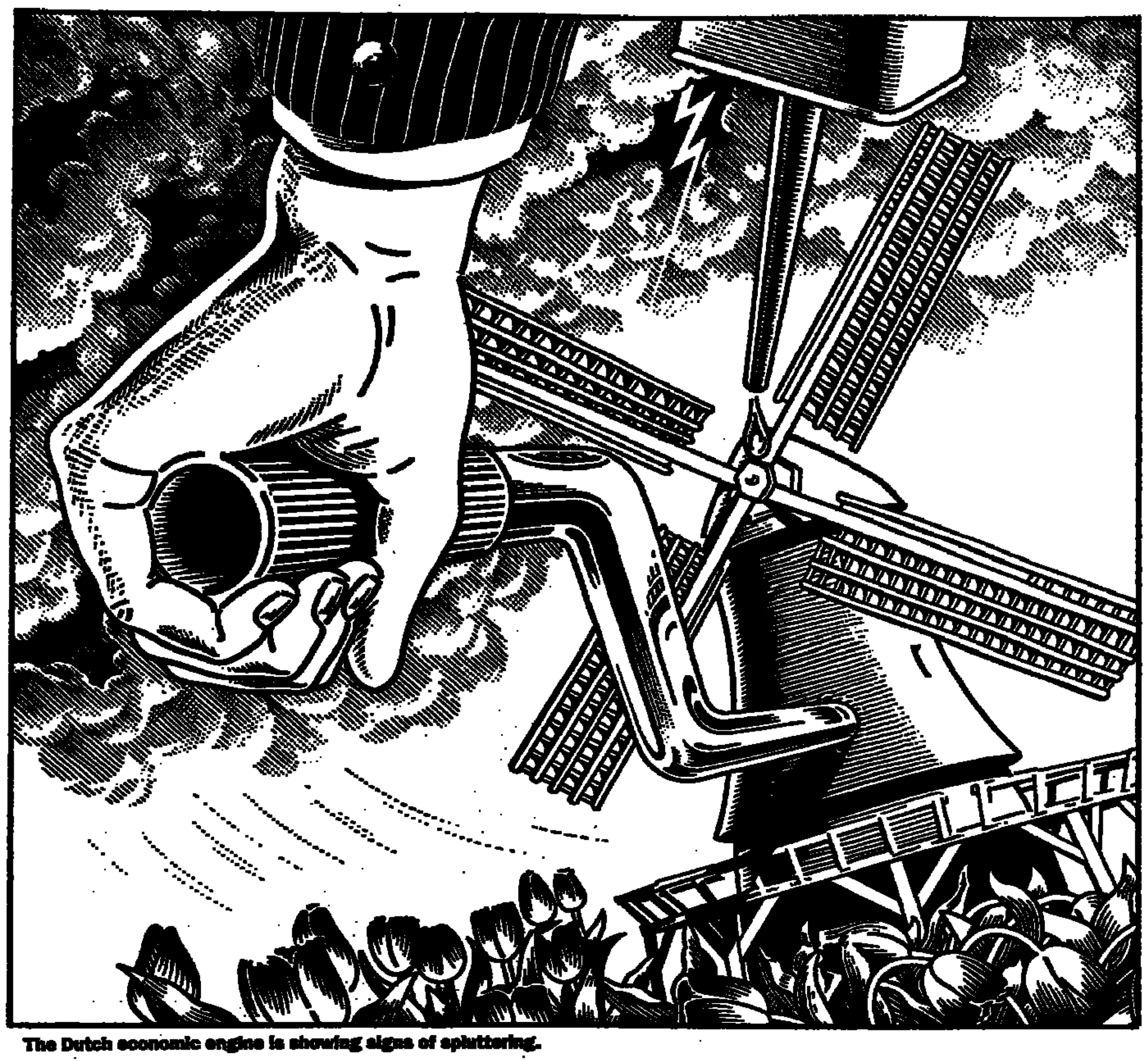
Nov.20	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	9.375	9.125	9.0625	9.00	9.00	9.125
Interbank Bid	2.00	8.875	8.875	8.875	8.875	9.00
Sterling CDs	-	-	8.9375	8.8125	8.75	8.75
Local Authority Deps.	8.9375	8.9375	8.9575	8.9375	8.9375	9.00
Local Authority Bonds	-	-	9.4375	9.4375	9.50	9.5625
Discount Mkt Deps.	7.8125	8.75	8.75	8.00	-	-
Company Deposits	8.75	9.25	9.125	9.125	9.125	9.125
Finance House Deposits	-	-	8.9575	9.00	9.00	9.125
Treasury Bills (Buy)	-	-	8.84375	8.625	-	-
Bank Bills (Buy)	-	-	8.84375	8.625	8.9375	-
Fine Trade Bills (Buy)	-	-	9.46875	9.25	9.046875	-
Dollar CDs	-	-	6.95-6.90	7.35-7.30	7.40-7.35	7.90-7.85
SDR Linked Dep Offer	-	-	6.125	6.50	6.5625	6.6875
SDR Linked Dep Bid	-	-	5.875	6.25	6.3125	6.4375
ECU Linked Dep Offer	-	-	7.00	7.25	7.25	7.4375
ECU Linked Dep Bid	-	-	6.875	7.125	7.125	7.3125

Treasury Bills (sell): one-month 8⅝ per cent; three months 8⅝ per cent; Bank Bills (sell): one-month 8⅝ per cent; three months 8⅝ per cent; Treasury Bills: Average tender rate of discount 8.2877 p.c.ECGD Fixed Rate Sterling Export Finance. Make up day OCTOBER 30, 1987. Agreed rates for period NOVEMBER to DECEMBER, 1987, Scheme I: 11.36 p.c., Schemes II & III: 11.29 p.c. Reference rate for period OCTOBER 1 to OCTOBER 30, 1987, Scheme IV: 10.094 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10.5 from NOVEMBER 1, 1987: Bank Deposit Rates for sums at seven days notice 3-3.5 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7.5 per cent; one-three months 8.00 per cent; three-six months 8.00 per cent; six-nine months 8.00 per cent; nine-twelve months 8.00 per cent; Under £100,000 8.00 per cent from November 5. Deposits withdrawn for cash 5.00 per cent.

SECTION III

FINANCIAL TIMES SURVEY

Although the Dutch enjoy a relatively high standard of living, critical economists warn that the country is moving too slowly in cutting its budget deficit and its high welfare state costs, as **Laura Raun**, Amsterdam Correspondent, reports here.



The Dutch economic engine is showing signs of spluttering.

The Netherlands

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Facing tough decisions

RECONCILING a lavish welfare state with sluggish economic growth is the most profound problem facing the Netherlands today.

It is inherently inter-twined with high unemployment and is provoking an intense debate over the standard of living that can be guaranteed to every citizen.

Unfortunately, most discussion centres on how to ensure that slowly expanding wealth is fairly shared out and less on how to create more wealth and therein lies the biggest risk for the future.

The recent stock market crash and the dangerously cheap dollar are threatening to weaken the world economy and trade, factors which heavily influence an economy as wide open as Holland's.

Dutch output may barely rise next year, joblessness may hardly fall and the big Government budget deficit may widen in the wake of the dollar's fall and the collapse of equities. But Mr Ruud Lubbers, the Prime Minister of the Netherlands, is confident that his Centre-Right Government will reconcile the welfare state with economic performance by sticking to its course.

"We will go on controlling government spending, not exaggeratedly, but step by step - bringing down the deficit, working on zero inflation and keeping interest rates as low as possible - that's the policy mix in the Netherlands," he explains.

The Christian Democrat-Liberal Coalition Government entered office in 1982 on a platform of economic austerity, public sector rollbacks and market stimulation. Now, in its second term, the Lubbers administration has achieved some success in paring the budget deficit, shrinking the collective sector and fostering a recovery in corporate profits.

The Lubbers formula is more or less the same as is being applied in most western countries struggling to put public finances in order and to promote private enterprise. But in the Netherlands such developments have gone further than in many others. The social security system is nearly the biggest and most generous in the world, while its economic growth is among the weakest.

Critics warn that the Dutch are moving too slowly in cutting the budget deficit and welfare state because costs are far outpacing the means to sustain it. The Hague borrows between 10 and 20 per cent or more of its expenditures every year and state debt will mushroom to exceed net national income (NNI) in 12 years if nothing is done, according to the Finance Ministry's own figures.

The Netherlands' economy expanded less than all 25 members of the Organisation for Economic Co-operation and Development (OECD) except Belgium for the five years up to 1985 (latest figures available). This year's Gross National Product (GNP) growth of around 1.5 per cent is below the European Community average - and next year's officially forecast 1 per cent rise would be half of the EC average.

Defenders note, however, that the Dutch enjoy a high standard of living about on a par with Austrians and slightly above Britons. They boast an efficient infrastructure, modern housing and ample consumer goods, if rather few luxuries.

Rates of crime, divorce and infant mortality are lower than in many other western nations, despite sensational stories of open drug use, anarchistic squatters and assaults on the Prime Minister's home.

Creature comforts have always ranked high in Dutch society and today more than half of all government spending goes to families and businesses through transfer payments. Welfare benefits, unemployment payments, housing subsidies, child allowances and a myriad of other schemes have proliferated in number and risen in levels.

The public sector has grown rapidly over the past three decades and now accounts for 64.5 per cent of National Income (NI), the second largest behind Sweden in the OECD. That figure peaked at 70.6 in 1983 but was half as big in the early 1950s.

Most threatening is that one-third of all state expenditures are made through open-ended programmes which provide benefits to everyone who qualifies. No limits are imposed so that money flows when people ask. Prime Minister Lubbers, who was educated as an economist, insists that fiscal austerity is moving as fast as it can on economic and political grounds. If The Hague slashed spending more deeply or quickly it could throw the country into a recession, regardless of trade and currency prospects.

On political grounds, the Lubbers administration wants to avoid steeper wage demands from trade unions, which presumably would bargain for bigger rises if transfer payments were reduced. More to the point is that one-in-six workers is employed by the Government while virtually every man, woman and child in the Netherlands benefits from the welfare state.

The highly charged debate on how far to trim the extensive welfare state centres on three major questions: is a large collective sector bad, how many services can the state perform and how much should the burgher expect?

One influential Member of Parliament, Mr Bert de Vries, the Party Whip for the ruling Christian Democrats, clearly does not think that big government is bad. He wants to put a floor under "the caretaker state" so that it does not fall below 60 per cent of national income.

The so-called "bert norm" would still leave the Netherlands with a larger public sector than West Germany, its major trading partner, the UK and the US. Mr Lubbers, also a Christian Democrat, tends to agree but balks at pegging a figure for the size of government.

"The percentage of the collective sector is *not* in itself a decisive factor for economic growth," he avers. "The real story is how we can bring down unemployment and at the same time bring down income transfers in our welfare state."

A number of economists, however, especially at the OECD, disagree with this view and argue that big government hampers the creation of wealth.

"With total government outlays exceeding 60 per cent of GDP...resource allocation was judged to be inefficient, all the more since resources tended to be allocated through an administrative process rather than through the free play of market forces," says the OECD in describing conditions when the Lubbers administration entered office.

"Emphasis should continue to be placed on structural actions aimed at restoring adequate incentives, improving the functioning of markets and more generally enhancing the flexibility of the economy," the OECD continues. "Within this overall framework, concrete policy measures should be guided...by the need to bring down the budget deficit, to curb structural unemployment and encourage investment."

A second question in the welfare state debate is what transfer payments and services can the state afford to provide. The answer is an amount compatible with revenues and a market economy. Any size of government is affordable if taxes are high enough - and Holland has some of the highest in the world.

Combined taxes and welfare premiums are so progressive that salary increases and overtime work sometimes leave the worker with less take-home pay. On the other side of the ledger, transfer payments are so massive that they obstruct market allocation of resources.

Labour, housing and education are three of the worst offenders. Joblessness has not fallen below 14 per cent in six years, partly because unemployment, disability and welfare benefits are so high and permanent.

The unemployed have less economic incentive to take a job while as many as one-third of the "disabled" are believed to have defrauded the government in applying for benefits. To be fair, Holland's joblessness also is a result of demographic factors. Women and youths have flooded the labour market much later than in the rest of Europe, keeping supply above demand.

The housing market is perhaps even more distorted by subsidies to everyone - renters, owners and builders alike. One of the worst political scandals in postwar history has involved illegal building subsidies funneled through the civil servants union. One-quarter of all tenants receive rent subsidies and 55 per cent of all dwellings have been built with construction subsidies.

A relatively high 55 per cent of the population rents its abode, but widespread rent controls have limited property yields and discouraged residential construction. As a result, housing shortages plague bigger cities, notably Amsterdam, although it is fair to talk about artificial shortages in that many dwellers refuse to pay market-related rents. They know that if they queue long enough they can obtain council housing, a subsidy for moving into a more expensive flat or even join the militant squatters' movement.

Prime Minister Lubbers agrees that subsidies must be pared but contends that it is politically and economically difficult to do so.

"As soon as I cut one subsidy...it would mean that in wage negotiations the trade unions are going to demand a half percentage point increase," he explains. "The amount of housing subsidies is too high...(but) we are hampered by high, real interest rates, internationally."

A third key question in the welfare state debate is what the burgher can reasonably expect from the government. Expectations have soared since the Netherlands' famous social security system was erected in the 1950s. Today the middle class benefits through subsidised opera tickets, as much as the poorer folk.

All the major political parties agree that the public sector must be curbed and that private initiative must be fostered. The Christian Democrats, the senior partners in the ruling coalition and a centrist party, talks about a new "caring society" that should replace the caretaker state. Family, friends and neighbours should help each other more and rely less on expensive and impersonal state services, they say.

Continued on page 8

The Dutch political spectrum has seldom looked so narrow

Viewpoints are converging

POLITICS IN the Netherlands is always a matter of marginal differences of opinion - some might say indecipherable to the untrained eye. But rarely - if ever - has the political spectrum been narrower than today, with major political parties all espousing uncannily similar ideas.

The Christian Democrats and Liberals, governing partners in the centre-right coalition, are cosier than ever in their policies of economic austerity, shrinking the welfare state and fighting high unemployment. The Labour Party, the largest opposition party, has adopted unprecedentedly moderate labour, incomes and welfare policies.

With more than two years still to go before the next general election, the Government of Mr Ruud Lubbers, the Christian Democratic Prime Minister, seems likely as not to win a third term in office. However, if the Socialists actually adopt the more flexible positions now being bandied about - and that is a big if - then a Christian Democrat - Labour coalition - looks more possible.

The remarkable convergence of political thought in a country already noted for a high degree of homogeneity is explained by several trends. One is that the political spectrum has swung toward the right in the past decade, like most western countries to a greater or lesser extent. Another is that mainstream parties have gained support while fringe ones have lost, a pattern especially prominent in the May 1986 general elections.

Yet another trend is the so-called "de-pillarisation" of Dutch society, which in the past was organised along religious lines that ran up and down through society like pillars. Religious affiliation (or lack thereof) usually determined party membership, which school a child would attend and which hospital would care for a family. For example, Roman Catholics traditionally voted Christian Democratic and free-thinking humanists might vote Liberal. Today these pillars are crumbling.

Because of the myriad of political parties, now numbering 11 in the Tweede Kamer (parliament), Dutch governments are comprised of coalitions, with the Christian Democratic Appeal (CDA) forming the swing party which is always involved. Despite the convergence of political thought, there is no reason to expect that even the biggest single party, now the CDA, could gain enough parliamentary seats to govern alone.

The like-mindedness of current thinking has been amply displayed in a flurry of soul-searching reports being produced by the big political parties. These *reports seek to identify social* trends and define party policies that will decide the next general election, in 1990.

The Labour Party (PvdA) recently unveiled a highly controversial report, poetically entitled "Shifting Panels," which

Labour, the largest opposition party, has adopted unusually moderate policies on incomes, labour and welfare.

centres on the theme of "guided flexibility." The report, under the chairmanship of former Prime Minister Jan Pronk, stops just short of advocating a reversal of some of the party's most fundamental positions.

In labour policy it suggests dropping the goal of a shorter working week and agreeing to weekend work, thus giving up the free days for which unions fought long and hard. The report also proposes a basic income for the unemployed, so that jobless benefits can be decoupled from working wages to allow the employed more flexibility in bargaining.

Defence policy represents one of the most dramatic shiftsin the report. In the past, under the tutelage of more radical leaders, the Socialists obstinately urged the abolition of all nuclear weapons.

Now, under the more pragmatic guidance of Mrs Marjanne Sint, chairman of the party, a policy of nuclear deterrence in co-operation with European Nato allies is proposed. Complete denuclearisation might remain as an ultimate goal, but it recedes so far into the distance as to disappear over the horizon.

Mrs Sint, who has served in her post for only half a year, explained that the report aims to cast Labour as a credible coalition party in 1990. In last year's general election it was Labour's rigid stance - especially in opposition to nuclear missiles and insistence on holding the premiership - that isolated the party.

"The most essential thing is to be seen as a potential coalition partner," Mrs Sint asserts. "We have no positions that are not negotiable. That is the difference with the past."

The new flexibility even extends to the People's Party for Freedom and Democracy (VVD), the right-of-centre Liberals, who are usually on the opposite side of every issue. "The door is open to the VVD as a possible governing partner in 1990," Mrs Sint says, without flinching.

But the overtures have been brusquely rebuffed by the pro-business Liberals. Mr Joris Voorhoeve, VVD's parliamentary leader, says dismissively: "The PvdA are a party with frustrated people, outdated policies and the wrong solutions." Unbridgeable gaps exist between the two parties in government spending, taxes, market forces and defence, he explains.

It remains to be seen whether the differences will narrow in the wake of the Shifting Panels report. Rank-and-file members of the Labour Party must approve of "guided flexibility" before it becomes party policy and a major showdown seems in store.

Mr Wim Kok, the PvdA's parliamentary leader, has scorned the report as misguided, especially in labour policy. "It is very much a question whether the many advantages which the (Pronk) commission links to gradual flexibility will indeed appear," says Mr Kok, who previously headed the Netherlands' largest union federation.

A major dilemma for the Socialists is how to appeal to a more conservative electorate while maintaining a distinct identity from the centrist Christian Democrats. Mrs Sint explains that labour cares more about personal freedom, equal opportunity, democratic solidarity and fair sharing-out of wealth.

But none of this sounds much different from what the Christian Democrats are saying in their own introspective report called "The Responsible Society" and what the Liberals are likely to say in their forthcoming study. The Christian Democrats, a mid-70s amalgamation of Protestant and Catholic parties, are struggling to develop a plausible concept for a post-welfare state society.

Proposals centre on replacing costly state and semi-governmental services with free, voluntary aid provided by family, friends and neighbours. Greater responsibility and concern on the part of individuals could foster law and order better than more policemen, goes the argument.

Talk of a moral revival makes many Dutchmen nervous but the replacement of a "caretaker state" with a "caring society" clearly involves moral bonds, which have weakened in the Netherlands, just as they have in other western societies. The CDA is aiming to rekindle these links as an ethical way of cutting the enormous costs of a welfare state that doles out subsidies for everything from vacations for the unemployed to special schools for Hindu children.

The Liberals, as junior partners in the governing coalition, have tended to steer clear of discussions on forging a new kind of welfare state that will rely on moral bonds rather than legal obligations. Instead, they look to classically libertarian issues to create a momentum for the 1990 election.

Promoting private enterprise, cutting taxes and combatting crime are at the top of the list. These policies, they say, are the best way to reduce stubbornly high unemployment - probably the most politically sensitive topic for 1990.

Mr Voorhoeve, an articulate conservative intellectual, notes with pride that the other political parties have moved closer to Liberal views on many important issues. Law and order was a VVD hobbyhorse in the 1960s and has now been taken up by most other parties. Reductions in the Netherlands' extremely high taxes and welfare premiums - a VVD clarion call for years - have now been adopted by the Christian Democrats, even by the hard-line Finance Minister who used to be adamantly opposed.

"If the Liberals are a dark blue circle, then the background has turned more blueish," Mr Voorhoeve explains.

With the political mood more conservative in general and pro-business Yuppies still in fashion, the VVD should be riding high in public opinion. Ironically, it is not. The party suffered embarrassing losses in last year's general elections.

Translating the favourable climate into electoral support would seem to be the task at hand, but the Liberals care more about power than popularity. Mr Voorhoeve concedes that the Christian Democrats have stolen his thunder on a number of issues but insists that the people know the Liberals had the ideas first.

"Sometimes you have to trade votes for power in a coalition," he admits. "It is nice to have both, but it is not always possible."

Laura Raun

Mr Ruud Lubbers, the Dutch Prime Minister: confident about his austerity policies.

Popular Premier firmly in control

WELL INTO his second administration, Mr Ruud Lubbers, the Dutch Prime Minister, has lost none of the power that made him the driving-force behind the successful austerity policies of his first term. He remains immensely popular at home, if less well-known abroad. Fewer summit meetings and nuclear missile squabbles may have kept Mr Lubbers out of the international limelight, but he remains a powerful figure.

Only recently he almost single-handedly steered a major piece of health care reform through the deeply divided Cabinet. The proposal for universal health insurance was opposed by most of the other ministers and yet it was approved after the Prime Minister convinced his colleagues of its merits.

He spent nearly eight hours lobbying the Cabinet of Christian Democratic and Liberal ministers to support the national health insurance proposal. The same day, the Netherlands cut its discount rate without waiting for West Germany for the first time in history, and Dutch minehunters swept into the war-threatened waters of the Gulf of Oman.

"We are steaming up the Gulf and cutting our interest rates," he exclaimed while ushering a pair of journalists into his small, octagonal office tucked inside a 13th century tower. "That's civilisation!"

Mr Lubbers, a Christian Democrat and an economist, is as confident as ever that his austerity policies are putting public finances back on a healthy footing and preparing the Netherlands for the next century. His centre-right Government of Christian Democrats and Liberals entered office in November 1982 on a platform of less government and more private sector.

Criticism from the Organisation for Economic Co-operation and Development that he should deepen and hasten spending cuts is politely deflected. "We have made a plan for this four-year period and we will stick to it and we are *not* going further," he insists. "Just because the OECD secretariat invites us to cut more sharply is no reason to do it."

Only when pressed repeatedly does Mr Lubbers admit to some nagging fears that more should be done. "We still have some way to go in reducing subsidies, and you have a political problem in going faster," he concedes, arguing that wage demands would rise if subsidies were trimmed more quickly. Falling government revenue from natural gas also makes it hard to shrink the budget deficit faster.

Mr Lubbers, an indefatigable 48-year-old, is the most popular and respected politician on the Dutch scene since Prime Minister Willem Drees, who created the welfare state in the 1950s. His formula is simple and quintessentially Dutch: honesty, sobriety, modesty - and shrewdness.

A Roman Catholic, he nevertheless possesses the Calvinistic qualities that underlie any success story in the Netherlands. He works from dawn to dusk, eats a *broodje* (sandwich) for lunch and worships on Sunday. He acts like a burgher and thinks like a premier. That is what the Dutch demand: leaders who reflect bourgeois values and yet are inspired enough to show the way.

"The political climate in this country is different from Great Britain, where the tougher you are, the more virtue you have," observes Mr Lubbers. "We are more moderate, we move step by step - it's part of our culture."

An anecdote drives home his point. "I remember one of the first times I met Margaret Thatcher. She told me: 'I thought I was the toughest but now you are cutting civil servants' salaries by 3 per cent.' I was flattered by the compliment but that is no reason to repeat it every year."

A wealthy industrialist, Mr Lubbers still lives in Rotterdam and commutes to the Hague every day. During the past 18 months his family has been the victim of a small bomb, a burglary at home and two car thefts. The lean and fit Mr Lubbers chased after both car thieves and caught one, pinning him in a bus shelter until the police arrived.

Compared with political leaders in the rest of Europe, Mr Lubbers is hardly protected - no bodyguards routinely follow him and his home is patrolled only by the local police. More precautions have been taken in the wake of the assaults but, like the Swedes after the assassination of Prime Minister Olaf Palme, the Dutch believe things have gotten out of hand.

"There is a feeling in the Netherlands that we are paying the price for permissiveness, especially in the area of crime," the Prime Minister admits. "There is an attempt to combine freedom with more social control. Not the old-fashioned sort of social control but by individual responsibility."

He firmly believes that a "caring society" must replace the "caretaker state" in promoting safety in the streets as well as providing many of the social services now furnished by a lavish welfare state. "We think the problem of permissiveness can't entirely be solved by the state and by laws. We have to develop an alternative to the welfare state by reducing the role of the state and increasing the role of the citizen."

If joblessness does not fall to at least 500,000 by 1990, when the next general elections are scheduled (from 687,000 now) then Mr Lubbers says he will not stand for Prime Minister again.

A 27 per cent drop in the number of unemployed by the turn of the decade is doubtful, according to economic forecasters, but Mr Lubbers is holding fast to his promise for now. Whether he does so in 1990 remains to be seen.

Laura Raun

Stock market turmoil

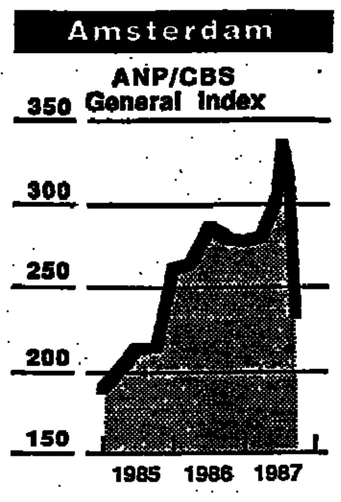
Trying to keep cool

IF PROPHECIES are self-fulfilling, then Dutch financial markets will survive rather well the worst stock market crash in modern history.

Government leaders, corporate chiefs, union bosses and fund managers have done their level best to talk down the prospects of an economic recession in the wake of the bourse collapse. Within a week of Black Monday, October 19, more than one-fifth of the Amsterdam Stock Exchange's value was wiped away - just as it was on most bourses in the world.

But the Dutch have sought to soothe fevered brows with the balm of reason.

"In general (corporate) liquidity is so amply available that I don't see much of a problem when looking to the Netherlands," observed Mr Ruud Lubbers, the Prime Minister.



Educated as an economist, Mr Lubbers admits that "there might be some companies who are on the point of issuing stock who may wait and see." But so far he has seen no direct threat to the Dutch economy.

The Prime Minister, the central bank president and the Finance Minister all said the plunge was largely a technical correction to an overbought market and blamed the US for the collapse of confidence. They contend that co-ordinated monetary and economic policies can help Europe fend off any downturn in the US.

Mr F.B.Lempers, director of economic affairs of the Netherlands Christian Employers Association, said recently: "As the business community, we must keep a cool head. There is no reason to panic."

His words were echoed by Mr HJ Leemreize, economist for the FNV, the largest labour federation. "We are not going to be the prophets of doom. It is obvious that we are worried. But there is no reason for special consultations within the FNV."

However, it is virtually impossible for the Netherlands to escape the vicissitudes of the world economy. With foreign trade making up nearly two-thirds of the economy, Holland can be whipped about like a cork on the ocean.

As the worldwide equity crash showed, global trading has arrived and no financial market is immune. Nevertheless, the financial markets play a smaller role in the Dutch economy than in the UK or US.

Dutch companies generally use the stock market less for raising capital, preferring to finance investments from internal resources if possible. Of course fresh capital raised through share issues has risen in line with bourse prices, nearly tripling to Fls 2.3bn in 1986 from Fls 820m in 1984.

"Volkscapitalisme," or people's capitalism, has drawn less attention than in other countries such as Britain, France and Italy where state ownership of companies has been wider. Private ownership of securities has risen to 12 per cent of all households in the Netherlands from 9 per cent three years ago but that level is still way below Britain's 20 per cent and America's 25 per cent.

The two biggest Dutch privatisations on the horizon are far enough into the future to escape jeopardy. DSM, the state-owned chemicals company, is slated for sale to the public later next near and the Postbank, an amalgamation of the post office bank and national savings bank, is still several years away.

Yet the question still remains whether companies in need of money will find an avenue closed off. Reassuring words about corporate liquidity could prove empty.

Philips, the Dutch electronics giant, has been struggling to decide whether to go ahead with plans to spin off one-fifth of Polygram, its music production subsidiary, through an international equity offering. The proceeds would have been used in part to pay for the acquisition of the stake in North American Philips not already owned by the Dutch parent.

The $683m price tag for the 42 per cent of North American Philips must still be paid by Polygram which, if it is floated at all, will presumably fetch much less than originally expected.

As far as investors are concerned, the damage is less than might be expected from the size of the bourse declines. Both institutional and private investors have avoided taking real losses in stock portfolios and are carrying paper losses. A fund manager for one of the Netherlands' largest pension funds says simply: "We haven't sold. We are bargain hunting. A lot of tight-lipped people are buying."

Dutch pension funds are among the largest in the world and also some of the most conservative, investing on average only 10 per cent or less in equity and the rest mostly in Dutch government bonds. Yields average 8-9 per cent, modest when compared with funds that have been invested more heavily in stocks.

Last month's stock market crash has probably convinced many fund managers that their caution has paid off but the trend toward greater equity holdings is likely to continue. Fund managers realise that they have access to a growing number of instruments for "portfolio insurance," such as index options, which can clearly limit losses.

Some fall-out from the market crash has been seen among jobbers and market makers. Mellegers and Van den Elsaker, one of Amsterdam's largest *hoekman* or jobbing firms, was rescued by a leading options market maker, Amsterdam Options Trader (AOT), after suffering a liquidity crisis.

The stock exchange and European Options Exchange in Amsterdam imposed trading restrictions on several other *hoekman* firms and market makers that encountered liquidity problems. The likely outcome is even more consolidation among these market players who have already joined forces to withstand the heightened competition of financial market liberalisation worldwide.

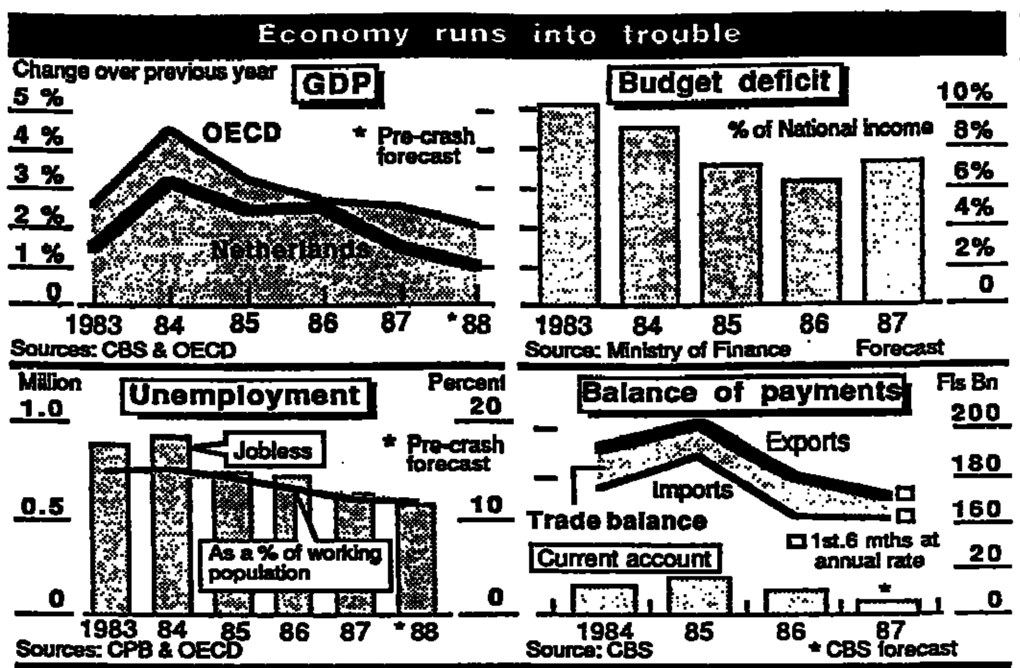
One of the most intriguing aspects of Black Monday has been the Dutch Finance Minister's suggestion that now is an opportune time for more takeovers. Mr H Onno Ruding recently argued that more mergers and acquisitions would strengthen Dutch companies, which are so protected by anti-takeover devices that hostile bids are virtually unknown.

"I have the feeling...that there are good arguments for somewhat fewer protective constructions in the Netherlands," he says.

Laura Raun

Economic prospects clouded by uncertainty

Perilous waters ahead



ONCE AGAIN the Netherlands finds itself drifting into perilous economic waters which threaten to swamp Government efforts to deal successfully with two of its most intractable problems - high unemployment and a deficit that in proportional terms makes the US deficit look tiny.

Over the past two years the Dutch economy has been beset by a series of squalls in the form of slumping prices for its main commodity, gas, a rapidly appreciating guilder and a sharp slowdown in growth.

More ship-shape than they were three or four years ago, the Government and exporters have battened down the hatches in an attempt to remain on course. But the prolonged battering is beginning to take its toll and with the outlook further clouded by uncertainty in the world's stock markets, few are optimistic that calmer waters are waiting over the horizon.

Even before Black Monday, real economic growth measured in terms of gross national product was projected to be just 1 per cent or less in 1988, down from a less-than-convincing 1.5 per cent or thereabouts for this year.

If net national income (real GNP less depreciation) is used as a measure, as favoured by the Hague, then it seems possible that there will be little or no growth at all next year.

After steaming hard in an effort to catch up in the mid-1980s, Holland yet again finds itself lagging behind its less vulnerable and more aggressive partners in the Organisation for Economic Co-operation and Development. OECD growth is expected to average around 2.5 per cent this year, well above the level in the Netherlands.

Other key economic indicators also look bleak. A much-needed spurt in domestic investment looks to be grinding to a halt and the normally assured large balance of payments surplus may fall below Fls 5bn. The long-standing budget deficit problem is far from being brought safely under control, while a welcome growth in job creation over the past few years is slowing rapidly.

Perhaps the most politically sensitive of all the issues facing Mr Lubbers is unemployment.The number of registered jobless is expected to fall by 30,000 to 680,000 this year, about 13 per cent of the labour force. But with outlook for growth stagnant it will decline even less in 1988. The target of cutting the jobless by 200,000 between 1986 and 1990 seems impossible.

Even Mr Ruud Lubbers, the country's normally optimistic Prime Minister, is having nagging doubts about the future. "The Netherlands, like most other OECD countries is aiming for sustainable growth of 2 per cent to 3 per cent. Two per cent is a bare minimum," he says.

Mr Lubbers has fought hard to jolt the Netherlands out of the lethargy induced by a top-heavy welfare state, and with some success.

Encouraged by a Government more sympathetic to wealth creation and spurred by a buoyant world economy, in the mid-1980s the Netherlands recorded four years of sustained GNP growth at around 2 per cent.

The improvement coupled with a strong mandate from the electorate spurred the Government to try even harder to tackle the nasty bunch of long-term structural problems still plaguing the nation: an unsustainable government deficit which it was feared could end up being 100 per cent of gross domestic product by the beginning of the next century; an unemployment rate among the highest in the OECD; and a welfare system which despite the change in attitudes still does much to discourage hard work, entrepreneurial initiative and the evolution of a more responsive labour market.

But just as it looked as if the Hague was beginning to get a handle on the problems, government policy makers have been knocked off course by factors beyond their control. The unexpected squalls have come quick and fast.

First, the remarkable fall in oil (and therefore gas) prices in 1986 has played havoc with government revenues,cut exports and sent profits plunging in the country's large gas production sector.

Because of time lags the full impact of the oil price fall did not show through in the budget until 1987. Government gas revenues plummeted from Fls 21.4bn in 1986 to about Fls 10.5bn this year. Dr Onno Ruding, the Finance Minister, reacted by introducing an austere budget aimed at cutting expenditures by Fls 5.4bn and raising tax revenues by Fls 5.2bn.

In the event, open-ended spending schemes, notably in education, have pushed expenditures higher than planned and the deficit is likely to rise from about Fls 24bn last year to Fls 27bn in 1987, increasing the central government deficit to about 7.6 per cent of national income from around 6.25 per cent last year. Mr Lubbers' target of getting it down to 5.25 per cent of national income by 1990 now looks extremely difficult.

Though Holland is in the enviable position of not borrowing abroad, the problem is not a small one. In the words of Mr Rudolf de Korte, the Economics Minister and Vice-Premier: "Our budget deficit in percentage terms is even more serious than the US budget problem." Total net government debt is currently running at about 68 per cent of national income. According to the OECD, even if the Government does meet its annual targets, it would rise to around 80 per cent of national income by 1990.

Secondly, a rapidly appreciating guilder in 1986 and 1987 has made life increasingly tough for Holland's vital export sector, threatening overall economic growth, cutting into the current account surplus and storing up further problems for the budget next year.

Even before "Black Monday," GNP was forecast to be 1 per cent or less in 1988 down from about 1.5 per cent for this year

Currency considerations are vital to a country like Holland which earns almost two-thirds of its income abroad. The guilder rose against the dollar by around 25 per cent in 1986 and by November this year had appreciated a further 14 per cent. Dutch manufacturers face their thorniest problems in the US and other dollar-linked markets, but they are meeting tougher competition in Europe from weaker EC currency countries and from more competitive American exporters.

In value terms exports fell about 13 per cent in 1986 to Fls 206bn, but exporters successfully cut profit margins in an effort to retain market share. This year, with less fat to trim, the going has been even tougher. Add to this the sharp fall in the value of gas exports (down around Fls 4bn) and the current account surplus is forecast to fall from Fls 12.5bn in 1986 to around Fls 4.5bn this year, one of its lowest levels this decade.

Third, Holland's highly open economy, already suffering from the recent slowdown in world trade and economic growth, will next year have to contend with any downturn that results from this autumn's crash on world stock markets.

The debate over the precise fall-out continues but few are in any doubt that it will have a downside effect.

The Government is playing down the potential dangers. "The crash will have a negative effect ....but we should be careful not to talk ourselves into recession", says Mr de Korte. But most are marking down the main economic indicators for next year.

Even before the crash these were far from encouraging. In August the Central Planning Bureau,the semi-government forecasting agency,was predicting 1 per cent GNP growth for 1988, nil per cent growth in business investment, a 0.5 per cent increase in consumer spending and a reduction in the number of registered jobless of just 25,000.

Amro, the country's second largest bank, sees Dutch growth slowing by half a percentage point in 1988, the budget deficit falling only slightly and, overall, even more pain for Dutch exporters.

Mr Lubbers must be cursing his luck. He has done well to keep inflation down to less than 1 per cent this year and Dutch interest rates are also among the lowest in the OECD. But he had been banking on continuing growth, coupled with his "slow but steady" policy measures, to overcome the structural problems. Now that growth has turned sour his breathing space has gone and with it any real hope of meeting the Government's key targets on the deficit and unemployment.

He may yet come to feel that his slow but sure consensus approach to achieving a change of direction - the one traditionally adopted by Dutch leaders - has been at least a couple of shades too cautious.

Richard Cowper

New challenges to Holland as "the gateway to Europe"

Anxieties in the cargo sector

THE WARM and sunny south is casting a mid-day shadow over Holland's ambitions to retain its role as the natural transport and communication gateway to Europe.

The southward drift in West Germany of rising high-tech industries, the entry into the Common Market of the fast-growing economies of Spain and Portugal, and continuing expansion in Italy are causing some industry experts to wonder whether in the next century Holland's strategic location, close to the old industrial heartlands of Europe, will not cause it to miss out on some of the most exciting developments in the Community.

In addition, there is concern that in several key areas Holland may have been slow to adopt new information technology in the management of traffic systems and cargo flows to *ensure that it retains its competitive edge* as a quick and efficient provider of transport and related services.

High labour costs and other structural problems arising out of the country's top-heavy welfare state have also added to worries about the future.

The Dutch have a lot to lose. The country's transport, communications and distribution sector is of major importance to an economy in which trade accounts for about two-thirds of Gross National Product. A sizable proportion of this is entrepot trade, using the Netherlands primarily as a conduit for onward distribution.

Rotterdam is by far the world's largest port, Amsterdam's Schiphol airport is Europe's fourth largest carrier of air freight, Dutch barge companies account for almost half of all international traffic on EC inland waterways, and Dutch trucking companies carry about a quarter of the international freight carried on European roads.

Nowhere are the stakes so high as at Rotterdam. Based on its vital strategic location at the mouth of Europe's busiest river, the Rhine, the port and its surrounding area generate about 13 per cent of Holland's GNP. Rotterdam's post-war strategy of going all out for high-volume growth has yielded high dividends: last year the port handled 256m tonnes of oil, raw materials and general cargo. This was almost 100m tonnes more than the Japanese port of Kobe, its nearest rival, and more than Marseilles, Antwerp and Hamburg - Europe's other top three ports - combined.

But Rotterdam cannot afford to rest on its laurels. The days of spectacular volume growth for the port are over, and experts argue that it now needs to adopt a new strategy for the future, concentrating on added value rather than tonnage moved.


The port of Rotterdam: the Dutch have much to lose if they see a decline in their transport, communications and distribution sectors.

The southward drift of many of Europe's industries of the future means the port can no longer rely on *its once seemingly* unassailable geographic location. To meet the threat from competitor ports, such as Hamburg, Genoa, Marseilles and Antwerp, and from alternative transport systems which might bypass Holland, such as the proposed north-south high-speed freight trains in West Germany and the Anglo-French Channel tunnel link, Rotterdam will need to double *its efforts to offer better*, faster, more efficient cargo handling and an ever-wider range of additional services.

A real test of Rotterdam's will and its ability to remain on top is already in the making in the high-value added growth sector of containers. Sea-Land, one of the world's largest container shipping companies, is considering moving out of the port when *its contract finishes in 1990*. The company is by far Rotterdam's biggest container client, moving around 400,000 boxes a year, about a quarter of the port's total 1.7m annual throughput.

Rotterdam's comparatively high port labour charges, the attractions of a new container terminal being built outside Antwerp, and the possibility of *additional financial incentives* from the Belgian Government are not making life easy for Rotterdam.

A recent report on the general cargo sector found that Antwerp was already more competitive than Rotterdam in a number of vital areas. It charged less rent, invested more money and provided a more flexible labour market.

Holland's container business suffered a serious blow earlier this year, when financial difficulties forced United States Lines to close its Rotterdam operation, losing the port about 200,000 containers a year. A share of this business has now come back through other companies, but Rotterdam simply cannot afford to lose the Sea-Land contract if it is to remain the *world's premier container port.*

Its position in the rest of the general cargo sector is of equal concern. Early this year, employers claimed the sector as a whole was losing Fls 30m a year and, in an attempt to cut costs, they tried to make 350 workers redundant. The result was a series of lightning strikes spread over several months, which forced 185 ships to go to other ports and lost Rotterdam 211,000 tonnes of seagoing cargo, 12,500 pallets of fruit, 7,300 containers, and 5,500 ro-ro units.

The total tonnage handled by Rotterdam in the first half of 1987 fell by 6 per cent to 121.5m tonnes compared with the same period in 1986 and a significant proportion of the decline was due to the strike.

Another area which is making life less than easy for Rotterdam is the heavy financial burden of dealing with pollution, mostly caused by other countries along the Rhine. Rotterdam was once one of the world's dirtier ports, but widespread environmental concern in Holland has prompted it to adopt costly measures of storing the heavily polluted silt which is washed down *the Rhine and then dredged* up from the harbour at the river's mouth.

The Dutch have identified some 14 factories - 10 in West Germany, two in France, one in Switzerland and one in Holland itself - as the heaviest chemical, metal, and arsenic polluters. A Fls 200m storage facility is due to be ready later this year, and should be sufficient to hold all *Rotterdam's contaminated sludge* until the year 2002. After that, Holland says it will no longer be prepared to bear the financial costs of other people's irresponsibility.

If Rotterdam cannot claim to be the cheapest port in the world, it has made much of its efficiency and modern facilities. However, in one key strategic area - the adoption of high technology for improving vessel traffic, freight and other information flows - it has been slow off the mark.

"In many ways until recently we were an old-fashioned port. The main reason was that our operations are mostly run by private companies which were hesitant about the benefits of high-tech, worried about the risks of information security, and above all extremely difficult to co-ordinate," says Mr J P Diefenbach, head of the port authority's external and commercial affairs department.

Slowly, this resistance is being overcome by a judicious mixture of government money, port authority initiative and heavy campaigning.

A new computerised traffic management system, known as VBS, became partly operational early this year. It should enable Rotterdam to increase the number of incoming and outgoing sea and inland water vessels, with a considerable improvement in efficiency. Of even greater potential significance, investigations, started as long ago as 1980, into a sophisticated electronic international transport information system, aimed at linking vessels, ship-owners, stevedores, agents, customs, banks and insurers, are now beginning to bear fruit.

So far, 35 of the port's larger companies have signed up with Intis, the company formed to manage the system.

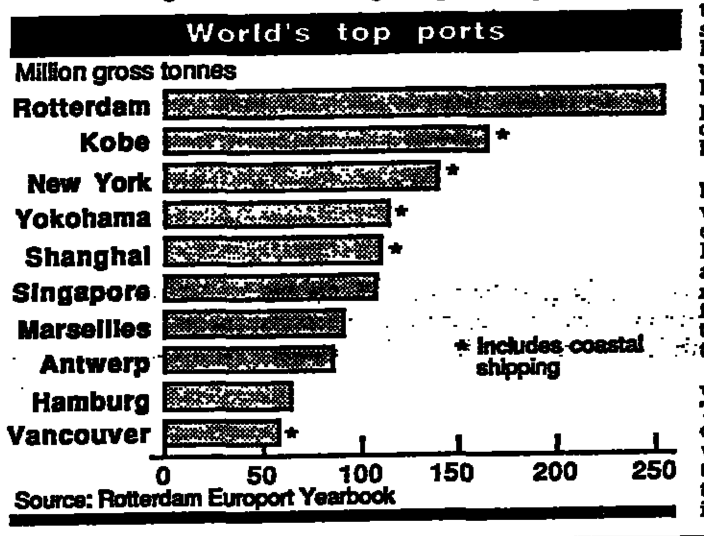
Intis aims to replace some 25 per cent of the port's 100m paper transactions by 1992, when it expects some 300 companies to be using its services.

Using internationally accepted standardised electronic documents for customer orders, freight shipments, customs clearance and bills of lading all along the transport chain, the company ultimately hopes to grow into a world market-in electronic transport communication systems.

Not a few believe the future fate of Rotterdam as the world's leading port will be intimately tied up with the success or failure of this highly ambitious company.

Richard Cowper

World's top ports



Source: Rotterdam Europort Yearbook

Manufacturing industry

Output levels fall well below forecasts

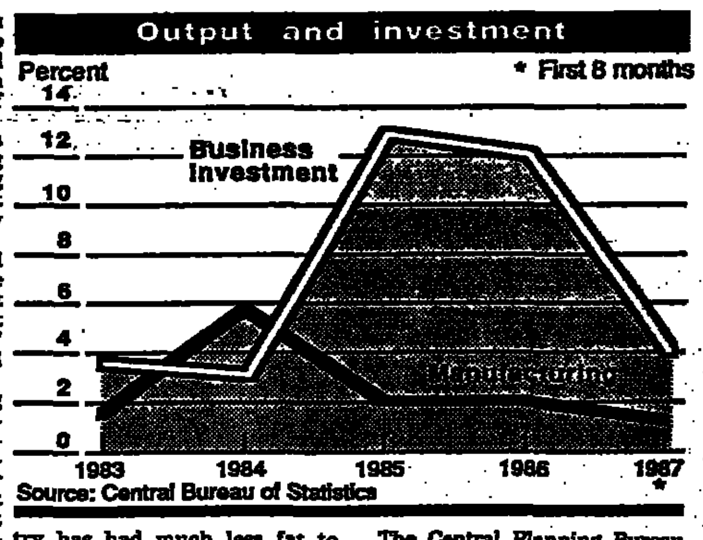
MANUFACTURING industry in Holland this year is on course to record perhaps its most dismal performance since the Dutch economy finally cantered out of recession in 1984.

Tough competition in overseas markets at a time of slowing world trade growth and a rising guilder have proved the biggest hurdles to the country's heavily export-oriented manufacturers.

According to the Central Bureau of Statistics (CBS) the volume of manufacturing output grew by a lacklustre 1.2 per cent in the first eight months of 1987 compared with the same period last year.

Buoyant consumer spending and a sharp growth in construction is expected to push the outcome for overall industrial production up to around 1.5 per cent for the year as a whole, but even this is well below the most recent official Government forecasts.

Output and investment



Source: Central Bureau of Statistics

As recently as August, the semi-government Central Planning Bureau, the organisation in charge of economic forecasting, was predicting a growth in industrial production of 2 per cent for 1987, an advance that now seems over-optimistic.

The main reason for the sharp decline in manufacturing growth is not hard to find. Well over half the sector's production is exported and the leading offender has been the change in exporters' terms of trade arising out of a sharply appreciating guilder.

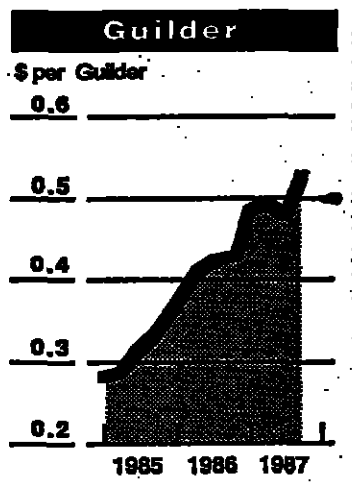
The high guilder started creating problems in 1986 when it rose against the dollar by around 25 per cent. Manufacturers faced their thorniest problems in the US and other countries linked to the dollar, but they also experienced currency difficulties in Europe where it rose about 5 per cent against the Ecu, because of its link with the strong D-mark.

Last year most manufacturers clawed their way out by adopting a policy of maintaining market share through cutting guilder prices. Overall, manufacturers accepted an average price cut in guilder terms of 9 per cent for their export products over the year. *Needless to say, it* was profit margins which had to give.

In 1987, however, Dutch industry has had much less fat to trim. By November the guilder had appreciated against the dollar a further 14 per cent, while slowing world trade growth (down from 4 per cent in 1986 to an estimated 2.5 per cent this year) has compounded the problem.

Lower profit margins and a reduction in output growth are widely expected to show through in lower profits and - more worrying for the future - a dramatic slowdown in business investment.

Guilder



The Central Planning Bureau is forecasting a 4 per cent increase in business investment for 1987, down from a healthy 12 per cent in 1986. This decline is particularly worrying in a country which has for much of the 1980s been investing in its own industry much less than its OECD competitors. Worse may be yet to come - even before the stock market crash, the CPB was forecasting no growth at all in investment in 1988.

Manufacturers disagree about all the likely effects of the crash in terms of future economic growth and trade, but they are in no doubt that in the short term at least the guilder is set to appreciate further against the dollar, causing headaches all-round.

The only solution to this problem - and it is one which Dutch policy-makers claim creates more problems than it solves - would be to untie the guilder from the D-mark and go it alone, rather than depending on the Bundesbank to make Dutch financial policy.

In the event, an appreciating guilder is likely to continue to cause *angst* in boardrooms all over Holland for some time to come. In a recent straw poll of top industrialists carrried out by *NRC Handlesblad*, *Holland's* leading national newspaper, nearly all put the rising guilder at the top of their problem list.

Mr Kor Van der Klugt, president of Philips, the world's second largest electronics company and the biggest employer in the Netherlands, said *Philips'* exports to the US, which account for 20 per cent of the company's turnover, were already suffering and Philips expected the dollar to decline even further.

Mr Van der Klugt's remarks are hardly surprising. Though Philips has done well given the circumstances, the Dutch electronics sector in general has been one of the worst-hit by the guilder's appreciation. According to the CBS in the first eight months of this year output declined by 0.1 per cent. At a time of tightening profit margins this cannot be good news.

The country's mighty food processing and drink industry has also been affected by this and other problems such as the EC quota-enforced decline in domestic milk production. The sector accounts for around 28 per cent of Holland's industrial turnover and is normally one of the most resilient and competitive in Dutch manufacturing. But according to the CBS it is not expected to show any growth at all this year.

Chemicals has been the one bright spot in an otherwise depressing picture. Sharply lower feedstock costs arising out of the dramatic decline of oil and gas prices helped to boost the sector's output by around 9 per cent in the first eight months of this year, but even here worries about the guilder are showing through.

Akzo, the chemicals and fibre group, expects profits to be down this year and believes a stronger guilder could dent them even further next year as US fibre manufacturers increase their competitive position.

Mr Van der Klugt outlines a potentially fearsome scenario: "If the dollar falls even further the European economy will be in for an awfully difficult time. Economic growth in Germany will decline to less than 1 per cent and that would be really bad for Europe," he says.

Richard Cowper

Political profile: Marjanne Sint, Labour Party leader

Charting a new course

"SHIFTING PANELS" is the ethereal title of the Dutch Labour Party's latest attempt to look critically at itself and its future. The subtitle of "continuity and renewal in social democracy" hints of the search for a modern identity that preserves the fundamental goal of equality for all while allowing for the greater egoism in today's society.

Presiding over the freshest effort at introspection, following a stream of similar reports in recent years, is Mrs Marjanne Sint, chairman of the Party for Labour (PvdA).

A newcomer to politics, Mrs Sint, now 38, took over the reins of the divided party only seven *months ago, after working* as a publisher and economist.

Her thankless job has been to heal the wounds of a party rent asunder by the failure to oust the Centre-Right Government in last year's General Elections and the retirement of Mr Joop den Uyl, the patriarchal figure who had dominated socialist thinking for 20 years.

Mr den Uyl was succeeded last year as Parliamentary leader by Mr Wim Kok, also a novice to politics, who has disappointed many in his efforts to create a serious opposition policy.

With two neophytes at the helm of the party and another fundamental review of party *identity underway the labour*ites are understandably worried about being battle ready for the next general elections in 1990.

By that time they will have been on the opposition benches for eight long years and more than ready for a shot at governing. Mrs Sint, a tall and slender woman, is confident that "shifting panels" plus two other forthcoming studies will mould the PvdA into a credible party.

"The new Socialists stand for "progress, renewal and fair sharing," she declares. "In the past sharing out was the most important element but now progress and renewal demand more attention."

But not everyone is convinced *the party is on the right track.*

Critics snort that Mrs Sint is a yuppie and deride the "shifting panels" report as a softening of party line favoured only by a select cabal. Historical values of equality, solidarity and sharing out wealth are being trampled under the feet of "strebers," a pejorative term referring to *strivers* who are out to make a career.

After receiving an economics degree from the University of Amsterdam, she went on to work first in the Ministry of Economic Affairs and then in Health, Social Affairs and Culture. From the Civil Service she moved into publishing, working

Continued on next page

Big economic impact of falling oil and gas prices

Many losers, but some winners

THE DRAMATIC fall in oil and gas prices has had a major impact on the Netherlands' economy over the last two years, producing a number of very big losers and not a few winners.

For the losers, the process of adjusting to an oil-gas link-price over 50 per cent lower than in the first quarter of 1986, has proved extremely painful.

The short-term outlook, too, clouded by a guilder which is appreciating rapidly against the dollar, is less than rosy. But those worst affected - the Dutch Government and private sector gas producers - claim they can now see some light at the end of the tunnel.

For much of the last 15 years, Holland reaped the benefits of high energy prices. After Norway, the Netherlands has been Western Europe's largest producer and exporter of gas and, at the peak in 1985, was producing 81bn cubic metres of gas, of which 46 per cent was exported.

In the 1970s and the early 1980s, the income from this seemingly ever-more-expensive commodity accounted for a sizeable proportion of government revenues, a hefty part of total exports and, in addition, spurred the development of a host of intensive-energy industries ranging from glass-house horticulture to fertilisers and chemicals.

But now the windfall is over. Dutch gas sales are tied to long-term contracts and so the fall in prices has had only a minor effect on overall production and export volumes.

Last year, Holland produced 74bn cubic metres of gas, a mere 8 per cent drop compared with 1985, and of this, just over 30bn cubic metres were exported. However, government revenues, gas exports and oil company profits have all fallen dramatically. A number of oil and gas development projects have been shelved and the supply industry has been severely mauled.

According to the Economics Ministry, net government revenues from gas on a cash basis have fallen by about 54 per cent in two years from Fls 23bn in 1985 to an expected Fls 10.5bn this year.

On a transaction basis which gives an indication of short-term future trends the fall is even sharper from Fls 24.4bn in 1985 to a projected Fls 8.7bn this year, a decline of 65 per cent.

The further sharp fall in the dollar after the stock market crash in the autumn is likely to push government cash revenues from gas down even more next year. On the basis of Fls 2 to the dollar, revenues for 1988 were forecast at Fls 8.6bn, but with the dollar already at Fls 1.90 in November and the outlook, if anything for a further guilder appreciation, the Ministry of Economics expects it to decline to about Fls 8.3bn. Some analysts predict the outcome may be nearer Fls 8bn.

Equally badly dented has been the country's gas exports. In 1985, these peaked at Fls 15.3bn and last year they fell to Fls 9.3bn. In 1987, the outcome is expected to be just Fls 5.1bn, a 67 per cent decline in just two years.

Almost as severely hit have been the country's gas operators, which include most of the world's top oil companies. According to the Economics Ministry the private sector industry's combined operating profits from gas have fallen, from an estimated Fls 6bn in 1985 to a projected Fls 2.5bn this year.

Preliminary projections for 1988 suggest a further fall to around Fls 2bn, down about 65 per cent in three years.

In a battle to adjust to new realities, the producing companies have severely cut back operating and development costs by an average of around 25 per cent, trimming staff levels and postponing major development projects. The number of onshore and offshore development wells drilled fell from a record 69 in 1985 to 50 last year. Just 28 are expected to be drilled this year.

Of the major oil and gas companies, the biggest loser has undoubtedly been Nam (Nederlandse Adolie Maatschappij), a joint venture between Shell and Exxon, which accounts for over 80 per cent of total Dutch gas production.

The company reacted quickly to the plunge in prices by postponing one of the industry's largest developments, the so-called F3 project to pipe oil and gas from the northern part of the Dutch continental shelf.

At a cost of Fls 2.2bn, the project was designed to tap a field believed to have reserves of 12bn cubic metres of gas and about 6m cubic metres of oil.

Nam has postponed a number of other smaller development projects, but claims it has not sacked any of its 3,500 workforce.

The big companies with large reserves are weathering the storm, but dozens of smaller ones - namely in the supply industry - are reeling from the sharp reduction in expenditures. Not a few are in financial difficulties and most have sharply cut back their workforces in a bid to stay afloat.

The fall in gas prices however has not all been gloom. Consumers, both domestic and industrial have reaped enormous short term benefits, and in the longer term even the Government and the oil companies may come to see the brighter side of what for the moment seems a highly depressing picture.

Because price changes are quickly passed on down the chain in the market-oriented Dutch gas sector domestic consumers have seen their bills by about half. Almost every household in Holland uses gas for heating, cooking and hot water, and in 1987 found themselvees about Fls 6bn better off than in 1985. This goes some way to explaining the buoyancy in consumer spending so vital to the economy at a time of declining govefnment spending and difficulties in overseas markets. Industrial consumers saved even more. Their energy bill in 1987 is expected to be around Fls 29bn, down about Fls.12bn from 1985. At a time when the higher guilder has been threatening the competitiveness in export markets this has given them much needed extra leeway to maintain market share by cutting guilder prices and still maintaining profit margins.

The Ministry for Economics has calculated that after taking into account lower energy costs by foreign competitors they still retained an Fls 2bn comparative advantage in this period.

The fall in revenues has made the Government's task of meeting its deficit reduction target difficult to achieve, but it has provided The Hague with a cast-iron public relations case for the much-needed reduction of the role of the Government in the Dutch economy, a policy which had met considerable opposition from those who refused to counter a re-assessment of the country's mighty welfare state. It has also had the benefit of shifting the Dutch economy away from what many saw as the "distorting" dependence on gas income.

The production companies, too, have discovered a brighter side. Before the crash in prices, they assumed that it was not possible to produce North Sea oil at much less than US$20 a barrel. But now they are looking forward to the possibility of doing it for $10. Some optimistic companies believe they are close too cutting gas production costs by 25 per cent.

Nor has exploration suffered as much as some feared. A combination of lower rig prices and the judicious offer by the Government of a vast acreage of new blocks in 1986, has tempered the decline. Early this year, 15 consortia were awarded 28 blocks in the sixth round and about 35 exploration and appraisal wells are expected to be drilled in 1987, down from 44 in 1986.

The oil and gas-producing sector, like the Government, is now leaner, fitter and more aggressive. When the anticipated upturn comes in the 1990s, both may look back with a measure of considerable satisfaction to the time when prices fell by half.

Richard Cowper

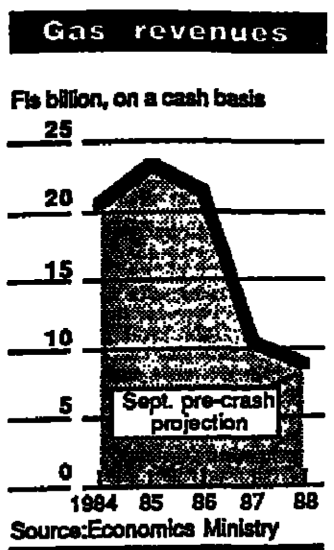
Production and Exploration

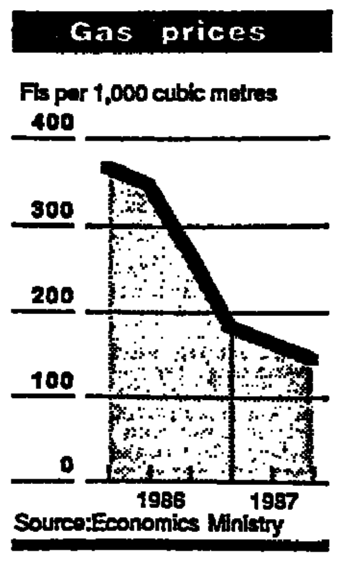
Oil and gas industry

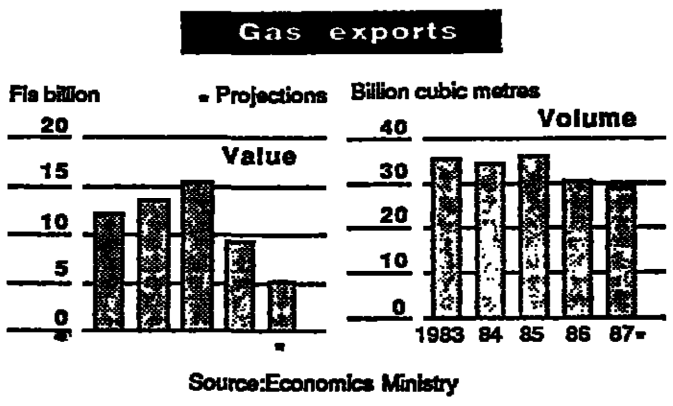
	1987*	1986	1985	1984	1983
1. Gas Output (bn cubic metres)	74.0	74.0	80.6	75.2	74.7
2. Crude Output (bn cubic metres)	4.3	4.6	3.7	3.1	2.6
3. Exploration Wells†	35	44	70	63	66
4. Development Wells	28	50	69	56	23
5. Total Wells Drilled	63	94	139	119	89

*Industry Projections
†Includes Appraisal Wells
Source: Dutch Economics Ministry

For much of the last 15 years, Holland reaped the benefits of high energy prices, but now the windfall is over. Government revenues from gas sales on a cash basis have fallen by an estimated 54 percent in two years.







Mrs Marjanne Sint: taking over the reins of the divided Labour Party which was rent asunder after last year's General Election.

New Labour leader

Continued from facing page

most recently as the head of the business publications division of VNU, the Netherlands' largest publishing company.

Mrs Sint could hardly contrast more with her predecessor, Mr Max van den Berg, a strident ideologue, considered arrogant by many and who at time dictated policy even to the *eminence grise*, Mr den Uyl.

Mr van den Berg was largely blamed for the party's obstinate positions, especially in nuclear issues, which offered no bargaining room. Mrs Sint is earnest and pragmatic, explaining that Labour aims to govern next time around and therefore reasonable policies are necessary to convince other parties of its intentions. She noted that the Socialists recently introduced into Parliament a Bill on profit sharing for workers and found warm support from the Liberals, the Right-of-Centre party, usually in direct opposition.

"Our identity is a combination of both ideology and pragmatism," she explained. "You need to have both." Two more self-analytical reports are still on the way, one outlining strategies for obtaining party goals and the other on organisation.

The strategy report, being prepared under Mr Kok, the Party Whip, has been delayed until the spring of 1988 because it was deemed lacking, Mrs Sint said politely.

She steadfastly refuses to criticise Mr Kok for his report or for his role in Parliament. "I don't share the critique that he has failed to present an effective opposition policy. He has done an excellent job," says Mrs Sint.

Mrs Sint and Mr Kok nevertheless seem to be headed on a collision course in the debate over the party's new identity.

While she endorses the "guided flexibility," recommended in the recent party report, he views it as undermining the position of workers and the jobless.

Ironically, when Mr Kok took over as Party Whip from Mr den Uyl, he was considered the voice of reason, having earned a high reputation as head of the country's largest union federation.

Now, a year and a half later, Mr Kok is looking like the ideologue next to the pragmatist.

Laura Raun

The agriculture industry believes it will benefit from a CAP that more closely reflects market realities

Why Dutch farmers are more bullish than most

"IF THE *world wants square tomatoes*, that is what we will provide", says Mr Rudolf De Korte, Holland's normally less than ostentatious Economics Minister.

The remark neatly reflects continuing Dutch optimism about the future at a time when farmers in the rest of the EC are looking ahead with trepidation as Brussels wrestles to make some economic sense out of the *Community's runaway Common* Agricultural Policy.

The reasons why most Dutch farmers are more bullish than their EC counterparts are not hard to discover. Unable to rely on a small domestic market of less than 15m, the country's 130,000 farmers have become green-fingered traders whose constant search for fresh markets and products has kept them on their economic feet and *turned Holland* into the world's third largest farm exporter after the US and France.

Served by the best transport and distribution network in Europe and tied to a large and highly efficient food processing industry, about 60% of Dutch farm output is exported either directly (flowers, plants, meat, milk and vegetables) or indirectly (cheese, butter,milk powder and a host of other packaged products).

Farmers and horticulturalists, food processors and the transport industry alike believe they will big gainers from an EC farm regime that more closely reflects *market realities*.

The Hague, for the most part, concurs. There is little doubt *that the continuation* of a strong agricultural sector is vital for the future health of the Dutch economy. Farm exports account for around a quarter of the country's overseas sales and year after year the industry turns in a large agricultural trade surplus. Without it an overall trade deficit would be a real possibility.

Mr Gerrit Braks, the Dutch agriculture minister, is putting his mouth where his money is *and calling on Brussels to move* faster along the road of CAP reform. He has advocated deeper cuts in cereals and other prices than the Commission has so far accepted and has been quick to back non-compulsory schemes to encourage inefficient farmers to switch out of agricultural production.

Unlike many agricultural ministers in EC countries he is in the fortunate position of not having *a farm lobby* that has grown overly fat on the back of an EC farm policy currently costing the community some Ecu27bn (£18.36bn) a year.

Few if any Dutch farmers produce for intervention. Less than 40 per cent of the country's agriculture sector comes under CAP controls and the disciplines of high productivity, excellent marketing, costly research and quick distribution necessary to win and keep foreign market share should generally stand Holland in good stead as the Community slowly unravels its agricultural monster.

The two potential weak spots for Holland in a freer EC system are in the cereals and dairy sectors.The country's grain farmers *are already in serious difficulties* and few believe they will easily survive the shake-out that eventually has to come. However, Holland's arable farmers account for just 8% of the country's total farm output and the Hague clearly believes this is a small sacrifice to make compared to the potential gains elsewhere.

The famous Cheese Market at Alkmaar.Dairy farm produce and processing is the largest sector of the Dutch agricultural industry, accounting for more than a third of total output.

More important for Holland however is the country's dairy industry. Dairy farm output is the largest sector in Dutch agriculture,accounting for about 35% *of total output*. Already hit by quotas, milk production has shrunk about 18% from the 1983 reference year, while downstream processors stand to lose windfall gains from EC policies. In 1985, Dutch producers of cheese,butter,and milk powder received about Fls 1.7bn in EC export subsidies.

Both dairy farmers and processors are confident that they would be winners and not losers from a freer more competitive EC dairy regime. Because they produce at far below the average *unit cost of other Community* farmers Dutch milk producers maintain they would sharply expand their EC market share.

Processors make similar claims adding that their export orientation.marketing techniques and product innovation give them an unrivalled advantage in this sector.

It is difficult to quarrel with such arguments. The only cautionary remarks to make are that a number of smaller less efficient Dutch dairy farmers may go out of business,while lower prices in the EC could potentially more than offset the gains made in market share if inter-EC *protectionist policies* are truly unravelled.

In the unlikely event that one day the EC accepts the ultimate logic of a free market philosophy and opens its borders to farm trade from the rest of the world the Dutch dairy sector would find it difficult to compete with countries like New Zealand. That is not a scenario that worries the well-informed Dutch farm sector.

Meanwhile, the country's agriculture industry continues to outshine its rivals.

Last year this tiny nation with just 2m hectares of usable land exported some 5bn cut flowers - more than 60% of the world market.

The Netherlands also claims to be the world's largest exporter of dairy products, poultry and plants.

Often more concerned with the price of oil or the latest guilder-dollar exchange rate than the weather Dutch horticulturalists,meat and poultry farmers run their establishments more like industrial enterprises than traditional farms.

The rapid adoption of new technology has helped make Dutch glasshouse growers among the most productive in the world. Some 9,000 enterprises are using computers to control temperature, plantfeed inputs, heat, light and water and well before the end of the century most will have adopted this high-tech approach.

High investment in seed and plant research has sharply boosted tomato yields,increased disease resistance and created new varieties of flowers and vegetables more attractive to customers. Last year, a flower-breeder claimed to have achieved the horticultural equivalent of turning metal into gold - the production of a black tulip.

By EC standards, Holland's farms are tiny, averaging just 15 hectares, but the industry is tightly organised into a host of highly efficient agricultural and horticultural co-operatives which allows large-scale marketing and buying of inputs and feedstuffs

Holland effectively uses more than twice its own land area to fuel its farm export industry. *Each year it buys some 17m* tonnes of cheap animal feedstuffs, grown abroad on about 3m hectares, to feed the country's 11m pigs and 43m poultry raised for markets abroad.

The dairy industry is itself a major importer of dairy products,which it essentially process and re-exports. Last year the country exported Fls 6.7bn worth and imported Fls 3bn. While its milk producers were forced by the EC to cut output processors were sharply boosting their milk and milk product imports to make up the loss.

Like the rest of the economy Holland's trading farmers are ably served by one of Europe's most effective communication networks.

Every day at least one Boeing 747 takes off from Schiphol, Amsterdam's fast expanding airport, loaded with cut flowers for the North American market.

Meanwhile, as other Community countries battle to cope with the adverse consequences to their agricultural industries of CAP reform, *Holland's* industrious farmers - already earning 2½ times as much as their EC counterparts - maintain that their biggest problem is the over-production of manure.

Richard Cowper

Agricultural Trade

These figures do not include food industry exports.

	1987†	1986	1985	1984	1983
Exports (Fls. bn.)	47.8	48.7	51.5	49.7	43.5
% of total exports	26%	25%	23%	24%	24%
Imports (Fls. bn.)	30.0	31.1	35.8	34.5	29.7
% of total imports	17%	17%	17%	17%	17%
Trade Balance (Fls. bn.)	17.8	17.6	14.7	15.2	13.8
Export volume (%)	+8%	+3%	+4.5%	+5%	-
Export prices (%)	-9%	-8%	-0.7%	+6%	-

†Projection based on first 8 months
Source: Dutch Ministry of Agriculture

Agricultural Output

(Values in Fls. bn.)

	1987*	1986	1985	1984	1983
1. Dairy and Beef†	12.0	12.5	12.7	12.9	13.3
2. Horticulture	9.6	9.3	9.2	8.7	7.8
3. Pigs††	5.6	6.2	6.6	6.1	5.6
4. Arable	2.7	3.0	2.6	3.6	3.1
5. Others**	3.2	2.9	3.1	3.3	3.0
TOTAL	33.1	33.9	34.2	34.6	32.8

*Industry forecast
†Including cheese and butter made on the farm
††Including on farm pork products
Excluding subsidies
**Mainly poultry and eggs
Source: Agriculture Economic Institute

Horticulture still has a star role

HORTICULTURE retained its *star role* in an otherwise mixed performance by Dutch agriculture in 1987.

Falling imports mean that Holland is on course for its highest-ever agricultural trade surplus, but the Netherlands - normally battling it out with France for second place in the world league of top farm exporters - seems likely to fall into third place this year.

In 1987, Dutch agricultural output is set to grow 1.6% down from 5% last year,but falling prices, both at home and abroad, are likely to show through in a decline in the value of total output of over 2%.

Aggressive marketing, mainly overseas,could well boost horticultural production by over 5%, mainly flowers and plants, offsetting declines in the dairy, meat and arable sectors.

In the last five years *Holland's flower, plant*, bulb and tomato growers have put the rest of the agriculture sector to shame. Since 1983 they have boosted output in value terms by some 23% to a forecast Fls 9.6bn this year.

Unlike other sectors they have been plagued neither by bad luck or by being tied to a mismanaged EC regime.

If anything, they have had good fortune on their side. Glasshouse growers' incomes have been give an extra boost, thanks to falling gas *prices. In 1986, heating costs* came down 30%. This year, growers received a further windfall of 20%.

In contrast, dairy farmers have been hit by EC attempts to introduce a measure of rationality into an over-supplied (and over-priced) market. This year the Dutch suffered a 6.5% cut in their EC milk quota, as well as poor weather - milk output is expected to fall perhaps as low as 11.6m tonnes, down from 12.7m tonnes in 1986.

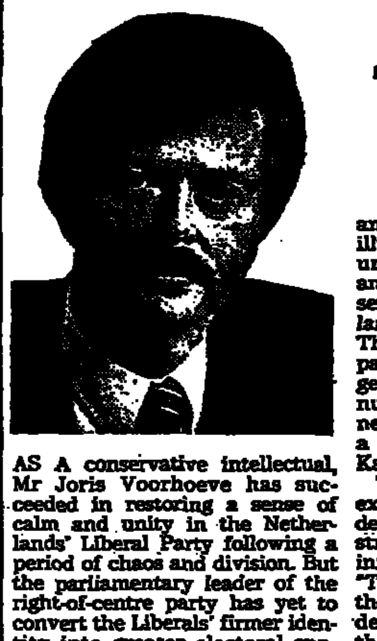
This has been the third traumatic year in a row for the *north of the country* where Groningen's arable farmers (cereals,sugar beet and potatoes) were hit by bad weather, as well as EC over-production and poor prices.

If 1987 was generally not a happy year for Dutch agriculture in production terms, the farm sector did, however, continue to make a big contribution to the *country's trade balance.* According to the Agricultural Economics Institute, the nation's foreign market-oriented farmers are expected to have boosted export volumes by about 8% to almost offset average price falls in overseas markets of 9%. The anticipated 1% decline in export value is likely to be more than made up for by a 3% fall in farm imports.

Richard Cowper

Profile: Joris Voorhoeve, Netherlands Liberal Party.

Threshold holds back VVD



AS A conservative intellectual, Mr Joris Voorhoeve has succeeded in restoring a sense of calm and unity in the Netherlands' Liberal Party following a period of chaos and division. But the parliamentary leader of the right-of-centre party has yet to convert the Liberals' firmer identity into greater electoral support.

Not that signing up new members *in the People's Party for* Freedom and Democracy (VVD) is Mr Voorhoeve's job. But as party whip guiding VVD policy in the Tweede Kamer (parliament) he is much more visible than the party chairman, Mr Leendert Ginjaar.

Mr Voorhoeve, an economist and political scientist, has no illusions about the Liberals' failure to mobilise more support among voters in an era of conservative values - in the Nether*lands and* throughout the West. The VVD lost one-quarter of its parliamentary seats in the 1986 general election and is now outnumbered by its coalition partner, the Christian Democrats, by a ratio of 2:1 in the Tweede Kamer and Cabinet.

The 41-year-old Mr Voorhoeve explains that the VVD, as a non-denominational party, must still struggle against the pervasive influence of religion on politics. "The confessional influence in the Dutch political system has declined...But there is still a threshold to cross before voting VVD."

Another problem is that the party cannot project an image that would in any way overshadow the CDA, the senior partners in the centre-right coalition. "The dilemma for a smaller coalition partner is that it must convince its bigger partner to accept its positions but doesn't always get to take credit for them," admits Mr Voorhoeve. "But the people know who fought for them."

In fact, Mr Voorhoeve takes pride in the fact that the *middle-of-the-road Christian* Democrats have adopted more classically liberal views of the VVD. "The CDA has moved closer to us in socio-economic policy," he avers, citing economic austerity, tax cutting and fighting crime.

The VVD leader is a relative novice to politics, having served only 1½ years as party whip and 3½ years before that as an MP. Before being elected to parliament in 1982 he was director of the Telders Foundation, the think-tank for the Liberal Party, and a professor of international relations at Wageningen University.

Mr Voorhoeve also served as a foreign policy analyst for the Netherlands Scientific Council for Government Policy and an economist for the World Bank's policy planning division in Washington. He is married to an American and has four children.

Mr Voorhoeve presents a striking contrast to his predecessor, Mr Ed Nijpels, who is now the Netherlands' Minister of Environment, Housing and Planning. Mr Nijpels took over as party whip at the age of 32 and was once dismissed as a "young dog" by a greyer colleague. Mr Nijpels' brash ways and impetuous style provoked an embarrassing series of blunders that deeply divided the party and tarnished its image in intellectual circles.

With his disciplined mind and academic background, Mr Voorhoeve has managed to restore some of the philosophical underpinnings on which the Liberal Party was founded in the 19th century. Freedom, tolerance, social justice and social order are hallowed principles.

"Demands for freedom don't just mean shrugging your shoulders about issues," he said in a recent speech, "but it means bringing the best out of yourself to help others. The VVD doesn't want a 'me-only society' but a liberal society, motivating each other to perform."

Mr Voorhoeve emphasises the necessity of high expectations in a society as committed to egalitarianism as the Netherlands, where mediocrity often results from the levelling process. "Socialists believe that equality is just, the Liberals believe in equal chances. The Christian Democrats and Socialists emphasise the caring function of the state and the Liberals want society to stimulate individuals to creativity and performance as well as to care for them."

Laura Raun

The welfare state

Step-by-step cuts in a tradition

AS EARLY as the 16th century, visitors to Holland remarked on its generous welfare state. Standing proudly on the banks of Amsterdam's Amstel River was a handsome old folks' home built by the city regents, a forerunner of today's retirement home. A combination of humanism and *egalitarianism gave rise to the* caretaker state, which acquired its modern-day trappings during the "Roman-Red" government in the early 1950s. The Catholic-Socialist coalition erected the social security system, national health insurance and income subsidies that subsequently exploded in number and generosity.

Today Holland is rivalled only by Sweden in the size of its welfare system. Slow economic *growth and high unemployment*, however, have gradually rendered the welfare state unaffordable. An ageing population that will require more services as active workers decline in number is expected only to worsen the problem.

That is why the centre-right Government of Mr Ruud Lubbers, which took office five years ago, has trimmed social security for the first time in history. The *cutbacks have been modest* - despite the howls - but they are a start on a process that will continue.

"We have to continue our policy of bringing down government spending in the country, year after year," the Prime Minister explained. "We are not at the end of this process. We are doing it step by step and it will go on for quite a few years."

More than half of all state spending is in the form of transfer payments to families and businesses - jobless benefits, housing subsidies and investment premiums, for example. Annual vacation bonuses for all welfare recipients are examples of more lavish provisions. These transfer payments have shrunk to 37 per cent of national income this year from 40 per cent in 1983 as a result of freezing social security benefits across the board since 1984, when they were actually shaved by 3 per cent. Benefit levels will be frozen again next year.

Criteria for schemes have also been tightened in some areas such as unemployment although applicants always have recourse to basic welfare. The cost of many schemes is being shifted away from central government *towards self-financing* funds.Combatting fraud remains a top priority and the Finance Ministry noted in its 1983 budget that "the Cabinet is busy looking to reduce the fraud-sensitivity of subsidy regulations." But it is not clear how much money has actually been saved by efforts to reduce cheating in recent years.

Soaring costs of national health insurance are being tackled by the most radical reforms *proposed since the scheme* was established. The price of health care has surged in the Netherlands over the past decade, as it has around the world, and the Christian Democrat-Liberal Government wants to make sweeping changes in the system. More incentives for saving costs and an open door for private enterprise are key elements.

No one is sure what the political limit is in shrinking the wel*fare system, although most* observers believe more can be pruned. Dr Geert Hofstede, a sociologist and professor at the University of Maastricht, agrees that more reforms must be made. But he adds: "Reports as far back as the 16th century describe the Netherlands as a relative welfare state. It is part of our distinctive identity."

The Lubbers administration may not be able to freeze benefits much longer but it will continue to shift costs away from government budgets and toward designated funds financed by contributions from workers and employers. This has already occurred in some employment schemes, one of the costliest areas.

In health care the Cabinet wants to merge the national health insurance scheme with the private sector in a bid to curb soaring costs. National health insurance is a state-controlled system financed by workers and employers but limited to incomes below a threshhold of Fls39,000 a year. Parallel to the public scheme is the private sector for workers with incomes above Fls39,000.

The Cabinet proposals would merge the two systems into one basic *national health insurance* scheme which would cover 85 per cent of the current package. The remaining 15 per cent would be financed by individuals.

Central to the cost savings is a greater role for the private sector. Doctors, specialists and hospitals would have a greater incentive to provide efficient care because insurance companies would more freely choose whom to compensate. At the moment insurers reimburse any costs.The reform package would pave the way for private health care, which is now limited to physicians. Clinics and hospitals can operate only with government permits and on a not-for-profit basis.

One medical clinic in Nijmegen has been granted an experimental licence to operate on a for-profit basis and if the Government reforms go through more could be in the offing.Looking at the total of government spending - not only transfer payments, income subsidies and health care - the Netherlands ranks as one of the highest in the world. Public expenditure will account for 66 per cent of national income this year.

Mr Bert de Vries, the party whip for the ruling Christian Democrats, wants to make sure the public sector does not fall below 60 per cent of national income. But few, if any, Cabinet ministers support him.

A more likely figure is around the European Community average of roughly 50 per cent. Getting into line with major trading partners such as West Germany holds a logic that appeals to the Dutch despite their altruism.

Laura Raun

Foreign policy and defence

Stronger European identity

ONE OF the cleverest gambles in Dutch foreign policy in recent years will have paid off if the United States and soviet union sign a treaty abolishing medium- and short-range nuclear missiles soon.

The Netherlands probably will not have to deploy any cruise missiles as four other western European allies already have done under Nato's 1979 double track decision to station medium-range missiles while continuing to negotiate ondisarmament.

The US-Soviet treaty expected to be signed in two weeks would ban intermediate-range nuclear force (INF) missiles before the 1988 deadline for the 48 nuclear missiles to be mounted on Dutch soil.

Cabinet ministers in the Hague are confident that the US Senate will ratify the accord before the cruise missiles are to be sited at the Woensdrecht air base near the Belgian border. The long-delayed missiles, which were originally to have been deployed in 1982, are supposed to be in place by September 1988.

If the US Senate drags its feet longer than next summer, then all the European allies are likely to be upset. Mr Hans van den Broek, the Netherlands' Foreign Minister, indicated that they had agreed on a timetable for dismantling the cruise and Pershing 2 missiles installed so far.

"We have no reason to complain," acknowledged Mr van den Broek, an intelligent and articulate man who is in his second term as Foreign Minister and has been mentioned as a future prime minister. "The schemes have been drawn up and all the allies agree that when dismantling we should try to avoid deploying at the same time."

What other Nato partners may not realise is that the Dutch are already talking about possibly scrapping two nuclear weapons that would go if cruise missiles were deployed. The centre-right Government agreed in 1985 to take the controversial missiles but said that in exchange it would halt the nuclear tasks of the Orion reconnaissance aircraft and the F-16 fighter.

Mr Wim van Eekelen, Defence Minister of the Netherlands, admits that efforts to halve the number of nuclear duties to two from four could shock allies.

"Nato assumes that we will continue our current nuclear tasks," notes Mr van Eekelen, a veteran European Community diplomat. "If *not*, there is a bit of a risk that the Netherlands will be seen as once again dragging its feet."

The Christian Democrats, the senior partners in the governing coalition, are spearheading the drive to get rid of the Orion's nuclear depth charges and the F-16's nuclear bombs.

Informed sources say, however, that the Christian Democrats are adamant only about the Orion and might keep the F-16. It was only the leftist rump faction in the Christian Democrats who joined with the opposition Labour Party to forestall nuclear missiles for so long.

Mr van Eekelen, an avowed Atlanticist and member of the right-of-centre Liberal Party, favours continuation of all four nuclear roles, including the

"There is a bit of a risk that the Netherlands will be seen as once again dragging its feet," says the Defence Minister, Wim van Eekelen.

8-inch Howitzer and Lance missile system. He notes that the F-16 will become even more important after the disappearance of all medium and short-range missiles because the fighter will be the nuclear weapon able to penetrate farthest into Warsaw Pact territory.

Most European allies are keener than ever to maintain tactical nuclear weapons after the ban on INF missiles and a sign that the Dutch are shrinking from such a duty is unlikely to go down well. They will have a chance to convey their feelings next week when Nato's Defence Planning Committee meets and European members hold a caucus on the eve of the gathering.

After these meetings and the Washington summit meeting on INF, Mr van den Broek and Mr van Eekelen will draft an official position on cruise missiles and other nuclear tasks. A lively debate in the Tweede Kamer (parliament) can be expected on December 17-18.

If the Cabinet sticks to the policy already outlined on nuclear armaments, then it will have to insist on keeping the four battlefield nuclear weapons. The Hague, like most other European allies, argues that no more nuclear weapons should be removed from Western Europe until more cuts are made in strategic arms, conventional forces and chemical weapons.

But even this fairly wide agreement is jeopardised by West Germany's internal split on short-range nuclear missiles, with the Foreign Minister eager to scrap them and the Defence Minister wanting to keep them. Mr van den Broek concedes that Bonn's desire to focus the next round of disarmament on very short-range nuclear missiles could clash with other allies' desires to concentrate on strategic, conventional and chemical weapons.

Some of these tensions could perhaps be eased in the West European Union (WEU), the group of seven countries attempting to forge a more coherent European role in defence and security within Nato. *The members are the* Netherlands, Belgium, Luxembourg, Britain, France, West Germany and Italy.

Until several years ago WEU was a moribund group, dating from 1952, but in 1984 it began a revival that has quickened with the current Dutch chairmanship, since July 1. The Hague assumed the one-year chairmanship amid growing tensions in the Gulf, where Iran and Iraq continued to inflict their war on merchant shipping and the biggest US naval build-up since the Vietnam war. A series of WEU meetings involving high civil servants was called with the aim of drafting a political position on the Gulf that could lead to a co-ordinated naval force.

In the end, only the Netherlands and Belgium agreed on a joint command for a minehunting task force now in the Gulf of Oman at the end of the Persian/Arabian Gulf. Britain has promised air and sea protection for the five-ship Dutch-Belgian fleet.

Mr van den Broek, a tall and dignified man, is nevertheless gratified that the WEU formally recognised the Gulf as being in its "vital interest." In Nato parlance the Gulf is "out of area," meaning outside Nato's traditional theatre of the North Atlantic, North Sea and Mediterranean.

The "vital interest" declaration followed harsh criticism from Washington that European allies were ignoring their responsibilities to help ensure freedom of navigation in international waters of the Gulf, especially oil shipments bound for Europe. Mr van den Broek, also an Atlanticist but less avowed, was stung by the criticism.

"We have given a political and military impulse to an out of area issue," he asserted. "I feel that WEU has been instrumental in responding to the Gulf situation."

The terse and innocuous WEU statement could, nevertheless, be viewed as a landmark decision for the 35-year-old group and a great achievement for a small country that does not often get to call the shots. But with typical Dutch self-effacement Mr van den Broek says: "We never take credit. We felt responsibility when taking over as president."

Mr van Eekelen, an amiable *man with a distinguished* profile, has proposed that the WEU partners rotate mine-clearing responsibilities in the Gulf, but initial responses have lacked enthusiasm.

Another concrete step in the evolution of WEU under the Dutch is a new authority delegated to the chairman to call a meeting of newly-designated, "contact person" in each capital. Emergency meetings have been rare in the past because of the rusty procedures for summoning members.

Under the Hague's diligent chairmanship the WEU last month finished drawing up a "platform" of principles outlining European security interests. The platform is seen as fostering French integration in allied defences

Many Europeans hope that France's *force de frappe* nuclear force will untimately be integrated into the Nato framework. But virtually no one believes that will happen soon or that a "Eurobrigade" will grow out of recent Franco-German military manoeuvres.

Looking across the Atlantic one finds another area that concerns the Netherlands - Surinam. The former Dutch colony on the north-eastern coast of South America is holding general elections on Wednesday for the first time since military leader Desi Bouterse seized power seven years ago.

If the elections are held fairly and further the democratic process, begun with the approval of a new constitution last month, then valuable Dutch foreign aid might be resumed. The Hague has promised to start up payments again on Fl 3.5bn in aid, which was halted in 1982 due to the murder of 15 opposition leaders, if democracy is restored.

"If objectively democratic institutions are put in place and there is sufficient guarantee for them to rule, then the Netherlands is only too eager to resume talks on aid," Mr van den Broek says.

Laura Raun

Moluccans' plight raises bitter memories

IN A picturesque setting of woods, lakes and canals in the far south, stands a symbol of the darker side of Holland's past and present.

A former Nazi concentration camp, complete with crematorium, perimeter fences, ditches and pre-fabricated barracks, still provides a home for a group of South Moluccan refugees who fled to Holland over 35 years ago.

It comes as no surprise that The Hague wishes to demolish this grim reminder of two historic events about which the Dutch feel considerable guilt: the failure to prevent the extermination of thousands of local Jews during the German occupation and the rash promise to South Moluccans made after the Second World War that they would be given their own independent state when the rest of Indonesia finally won its freedom.

What is surprising is that a country that has long prided itself on its tolerance and one of the most liberal and comprehensive welfare states in the world, should have allowed the Moluccans to live in such macabre surroundings for so many years.

Almost every outsider who has seen it agrees the camp is not fit for human habitation. The 350 or so Moluccans left are still living in the very barracks that housed the estimated 15,000 Jews and 1,500 resistance fighters who were exterminated at the camp during the war.

Until a few years ago even the gas chambers were left standing just a few yards from the Moluccan primary school.

The "new" inmates of the camp, located in Vught, just a few miles just outside the pleasant Dutch town of s'Hertogen-Bosch, have invested considerable time, money and energy on improving the inside of their living quarters, but the chilling corridors that link the separate rooms have hardly been touched since 1945.

Survivors from the war years find no difficulty in recognising most of the landmarks of the place of their former incarceration.

Older Moluccan inhabitants of the camp, now called Lunetten, mostly soldiers of KNIL - the former Dutch colonial army in Indonesia - still talk of the ghosts they confronted when they arrived in 1951.

"I saw a helmeted soldier, but his face was not visible. Then I heard a woman screaming in pain," recalls one man, now retired.

Today, he uses some of his time to make kites to gain a little extra income.

If the camp itself was not sufficiently grim, the Moluccans are also hemmed in by a heavily-guarded prison on one side and by a Dutch army camp on the other. In spite of all this, demolishing the camp is not proving an easy task. For sentimental, financial and political reasons most of Lunetten's inhabitants are refusing to budge.

"According to the Dutch, it is not fit to live in, but they do not realise we have never known anywhere else ... yes, it does not fit into Dutch norms.

"But that is what they do very well - dictate what others must do and how others must act," says Mr Parihala, a 39-year-old member of the camp committee.

It is a strange twist of fate that a people who for decades berated the Dutch for their "broken promise," refused to accept Holland as their home and lived only for the day that they could return to an independent South Moluccas, now view this former concentration camp as their true home.

A minority of the inhabitants *are* attracted by the new community area which the Dutch have built for them, not far

Some 350 Moluccans are living in a former Nazi concentration camp, little changed since 1945

away, but they claim the move is not practicable.

At Lunetten, they have to pay just Fls 50 a month in rent, but the new houses will cost Fls 500 or more, and they will also lose the benefits of free services such as water.

Most have reacted angrily to the court orders issued to every family saying they must be out by October 1988 - and not a few claim strong political reasons for staying in Lunetten.

The location is the last of the Moluccan camps in Holland and some feel that when it is disbanded, the heart of Moluccan independence will have lost its last spiritual centre.

"This is our home. We see it as a monument to the struggle for national self-determination of all Moluccans now living in Holland, and also as a living reminder to The Hague of its betrayal of their promise to us...if they want to get me out, let them send in the tanks like they did at the last Moluccan camp at Vaasen," declares an angry 26-year-old Moluccan who declines to be named.

Few expect the majority of the camp's inhabitgants to leave quietly, even though the violent clashes of the 1970s are a thing of the past. Then, Moluccan radicals hi-jacked a train, killing eight innocent bystanders, took over a primary school and captured Indonesian diplomats in an attempt to focus international concern on their cause.

The worst that is likely to happen next year is an outbreak of fisticuffs with a far-from-confrontational Dutch police force or perhaps a punch-up with the slightly more aggressive National Guard.

The Moluccan independence movement still retains a so-called government in exile in Holland with an ageing president, Mr Manusama, who commands a token army without guns. But the politically active minority is split into a host of ineffective and often mutually hostile political splinter groups. Many of the younger generation no longer hold the strong independence ideals of their elders and are now more interested in finding a job or raising their children, rather than returning to the Moluccas as conquering heroes.

Of the estimated 45,000 Moluccans living in Holland, about 40,000 have now taken Dutch citizenship, 3,000 hold Indonesian passports and upwards of 2,000 are stateless.

There is no armed independence struggle in the Moluccas itself and with the decline of Moluccan political radicalism in Holland the issue is no longer a thorn in he side of Dutch-Indonesian relations.

The Indonesian Embassy in The Hague does not feel it necessary still to despatch intelligence officers to every large Dutch Moluccan community; a recent agreement with the Dutch Government allows for repatriation to Indonesia of Moluccans, provided they are not stateless.

"We have to remain vigilent. But it is no longer a bilateral problem of great concern to us," says Mr Mohammed Romly, the Indonesian Ambassador.

Since the kidnappings in the mid-1970s, a greater irritation in the relationship has been the thorny issue of human rights in East Timor and Irian Jaya, both territories regarded by many as being forcibly incorporated into the Indonesian state.

Each year, groups of Dutch human rights activists gather at the aid meeting of the Inter-Government Group on Indonesia (IGGI) at The Hague to protest against what they claim has been Jakarta's failure to fulfil its commitments under the UN Charter on Human Rights.

Each year, too, the Dutch Government feels compelled, under pressure from Parliament, to raise a variety of human rights issues with the Indonesian Government.

Few believe these protests make much of an impact on Jakarta, but there is little doubt they have made it more difficult for The Hague to evolve a more normal and constructive relationship with its former colony, unhampered by reminders of a painful political past.

What Indonesians regard as interference in their domestic affairs has added to the bitter circumstances under which Jakarta won its independence in 1949.

The Dutch colonialists spent 350 years in Indonesia, but when, after the Second World War, their time was clearly up, they refused to let go and engaged in several years of fighting in a forlorn attempt to cling on to their former colony.

Many of Indonesia's post-war leaders played key roles in the struggle and despite the Western orientation and pragmatic policies of President Suharto's government the fight against the Dutch still arouses more passion than perhaps any other issue in modern Indonesian history.

"The Dutch know us well, as we do them, but somehow after all this time we still do not like them," says an Indonesian journalist who has worked in Holland for several years.

A Dutch Cabinet minister confirmed the problem. The past has "cast a shadow, a permanent burden on relations between the Netherlands and Indonesia" says Mr Yvonne van Rooy, the Netherlands Minister for Trade.

With such high sensitivities on both sides the post-war relationship has been one of missed opportunities. Trade between the two countries is running at little over Fls 1bn a year, and Dutch investment in Indonesia is a mere $800m.

With the decline of political radicalism in Holland and a less aggressive stance on human rights, and the rise of a new generation of leaders in Jakarta, many hope the next decade will see the emergence of a more constructive and mutually beneficial relationship.

Richard Cowper

Tough decisions ahead

Continued from page 1

The Labour Party, the largest opposition party, is discussing a "leftist" austerity programme and "guided flexibility" in labour union practices. Groups in society such as workers' councils and consumer advocates should be mobilised to take the burden off an overtaxed government, it is suggested.

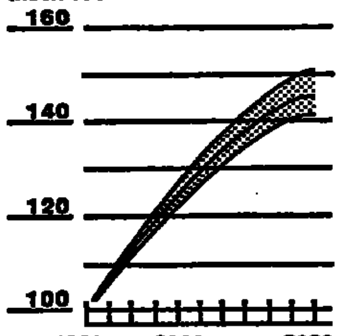
The consensus of opinion is that individuals must take more responsibility for ensuring a decent standard of living. Less dependence on government not only would decrease state spending but would allow unbearably high taxes and welfare premiums to come down.

Some economists argue that growth would accelerate if taxes and premiums fell because the supply side of the economy would be stimulated. The Dutch are focusing on the benefits of more moderate rises in wages, which are among the world's highest. Workers must have higher wages to cover hefty taxes and premiums so that they are still left with reasonable take-home pay.

Social security

Expenditure forecasts for low, medium and high scenarios

Index 1981 = 100



Source: Govt. statistics

But unit wage costs will be of crucial importance next year when the strong guilder eats into exports. Even Mr H. Onno Ruding, the Finance Minister known for his conservative fiscal policies, has boarded the bandwagon of lower taxes.

He clearly wants Dutch exports to remain internationally competitive and thus has dropped his earlier oppostion to lower taxes, which were secondary to deficit cutting.

While the dilemma of welfare and growth is commanding serious attention, the Dutch are certainly not despairing. Government leaders and market regulators are talking down any prospect of a recession and emphasising the Netherlands' competitive weapons of low inflation and flexibility.

Dr Geert Hofstede, professor of organisational anthropology and of international management at the University of Maastricht, puts it this way: "Problems are only there if you define them as such. Ten years ago it looked like Britain was in dire shape and I was struck then by the lack of concern. But look at Britain today."

Are the Dutch utterly complacent in the face of impending disaster? Or are they taking measured steps that will ultimately bring their desires into balance with their means? If a crisis strikes, they will react - quickly and efficiently. It was with that characteristic that they reclaimed land from the sea and also battled against floods when waters burst through the dykes.

That is why, too, they embarked on a stringent austerity programme in 1982. The Dutch are shrewd and resilient. They enjoy a comfortable life and will not squander it through self-satisfaction. At heart, the Dutch are too Calvinistic, diligent and sober for that.

Living standards are proking intense debate in the Netherlands. Above: shoppers throng the popular Grote Marktstraat shopping area in The Hague.

Netherlands and Britain celebrate William and Mary Tercentenary

Ambitious programme to mark 300 years of friendship

William III of Holland became King of England in 1688.

PROFESSOR FRED BACHRACH is a small and wiry Dutchman, an energetic Professor Emeritus of English who specialises in Anglo-Dutch cultural relations.

Several years ago he decided it would be a fine idea if Britain and the Netherlands celebrated 300 years of friendship, dating from the Glorious Revolution when William III of Holland and Princess Mary Stuart were crowned King and Queen of England.

Having convinced many other people - including royal patrons - of the wisdom of his idea, Prof Bachrach emerged as the 'father' of the William and Mary Tercentenary, which will be commemorated in 1988 and 1989.

An ambitious series of artistic, cultural, academic, scientific and sporting events in both countries which will be officially launched when Britain's Queen Elizabeth and Holland's Queen Beatrix meet in Amsterdam next July.

The programme is designed to remind the two nations, straddling the English Channel, of their common heritage in constitutional monarchy, individual freedom, commerce, finance, science and the arts.

Sir John Margetson, the British Ambassador in The Hague, notes that "in celebrating William and Mary, we are celebrating the natural partnership that has existed between Britain and the Netherlands for a long time."

But every story has a darker side. What is known as the Bloodless Revolution of 1688 actually helped spill blood in Ireland for three centuries. The victory of Protestant William of Orange over Catholic James II at the Battle of the Boyne exacerbated a schism that has never healed.

Today, Ulster Unionists, clad in orange sashes, still march triumphantly through the streets every "glorious 12th" (of July) to proclaim victory at the River Boyne. Dutch and British organisers have put themselves out to tiptoe around King Billy as divider and concentrate, instead, on William as unifier, but the problem clearly will not go away.

No events are being held in Northern Ireland for fear of inciting the Unionists or the Irish Republican Army while hopes for a joint Ulster-Dutch production of a television documentary have been notably scaled back.

In a concerted effort to avoid controversy and focus, instead, on harmony, the governmental and cultural organisers of the 300th anniversary have created a programme primarily of art, music, science and sports. Both sides keenly hope that tourism and trade will benefit from spin-off effects.

When William III was invited to "come and save England" from James II's despotism and Catholicism, the country was dangerously divided by politics and religion. The choice seemed to be tyranny or civil war. The Dutch Stadholder's daring crossing of the English Channel and triumphant coronation with Mary II ended a tumultuous period of three Anglo-Dutch wars, fierce economic rivalry and Catholic upheaval in predominantly Protestant England.

The 38-year-old prince brought with him the Dutch expertise that had built the Republic of the seven provinces into a major world power during the golden 17th century.

Dutch institutions provided a model for the Bank of England, London Stock Exchange and Lloyd's company - three of the City's cornerstones. More William and Mary 2222 Holland's Staatsobligaties (government bonds) led to the creation of the gilt-edged securities market, which gave investors the comfort of borrowing from the state, rather than a fickle neighbour. Dutch capital that could not easily find a home in Holland - and much of it flowed into England.

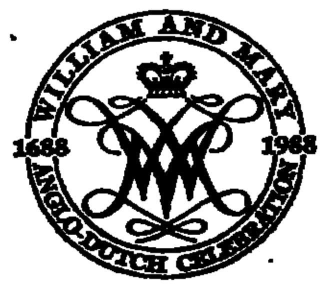
Today's huge Anglo-Dutch concerns such as Royal Dutch/Shell and Unilever can trace links, though not actual roots, back to thecross-fertilisation of trade in the 17th century.

In the 18th century, shipping convoys were shared by English and Dutch vessels - and, by the 19th century, English technology used in the industrial revolution was imported by Holland. Many observers believe there is a "chemistry" in the British and Dutch characters that produces a sterling commercial formula. Dutch discipline and British flair is the way some observers describe it.

Royal Dutch/Shell, the oil giant, is the largest company in the world, while Unilever, the food and detergents conglomerate, is the sixth largest.

Earlier this year, Mr Graham Day, head of the Rover Group, chose DAF of the Netherlands over Paccar of the US, as a white knight for Leyland Trucks, the struggling subsidiary of Rover. Mr Day defended his decision on financial grounds, but it was quite evident that public sentiment favoured a European solution - the Dutch being among the most acceptable - above an American one.

Shared political values also can be traced back to the late 17th century. The bill of rights drawn up by England's "Convention" Parliament, establishing its rights and limiting those of the crown, reflect many of William's own ideas. Dutch writings and institutions influenced such English philosophers as John Locke, who had fled to the Netherlands after banishment from England.



A series of cultural, academic, scientific and sporting events in both countries will be officially launched next year by Queen Elizabeth and Queen Beatrix.

It was during King William's reign that the Toleration Act was passed, providing a foundation for freedom of conscience. Constitutional monarchy, it can be said, was born of England's demand for democracy and William's beliefs in humanism, enlightment and tolerance.

Religious tolerance and freedom of speech had flourished in Holland after the Dutch had ousted the tyrannical Spanish. The position of Stadholder, of which William was the fifth in line, had developed into a guarantor of religious and civil liberties during the century since William the Silent had united Holland against Philip II of spain.

Although William III was proclaimed as the defender of the true faith throughout Europe and America, he was anything but a religious fanatic. His massive and costly crossing of the English Channel was financed by a Sephardic Jewish merchant. A French Huguenot expelled by Louis XIV, Daniel Marot, became the Court Decorator for William and Mary. William sought no revenge against Catholic James II, even after his father-in-law invaded Ireland with French support, with the hope of securing a base from which to drive his son-in-law and daughter from the throne.

Princess Mary Stuart became Queen of England.

After being defeated at the Battle of the Boyne he fled to France, unhindered by King William. Besides the financial, commercial and political influence wielded by the Dutch they also made their mark in science and the arts.

Anton van Leeuwenhoek, the Dutch pioneer in microscopy, and Thristian Huygens, inventor of the pendulum chronometer, both became members of England's Royal Society for the Advancement of Sciences.

Polder experts, who had reclaimed vasts tracts of land from the sea in Holland, showed the English how to do the same in East Anglia. In the arts, William and Mary created a distinctive style with the help of Daniel Marot, a designer who had trained under artists in the court of Louis XIV and reflected much of the splendor of the Sun King.

Tempered by the soberer tastes and the eclectic idiosyncrasies of Dutch aristocracy, Marot and other Huguenot and Dutch artists developed a baroque idiom that imposed Versailles ornateness on more *bourgeois tastes*.

Marot achieved his greatest success in the decorative patterns for gardens, but unfortunately failed to achieve the same harmony inside palaces where colours tend to clash and styles to repel painfully.

With the Dutch having inspired the William and Mary Tercentenary, it is not surprising that they have forged ahead more enthusiastically for the event. British organisers are so wary of the Irish problem that they are clearly lagging behind, hoping to ensure that none of the events planned is too controversial.

How the celebration eventually develops will be a test of how far it is possible to separate the arts and culture from religious and political issues.

Laura Raun

Major events

SOME OF the major events of the William and Mary Tercentenary include:

□ May 15 - opening of "William and Mary at the Palace" - an exhibition of costumes, paintings and *objets d'art* at Kensington Palace.

□ July 1 (until September) - exhibition: "Parliament and the Glorious Revolution" at the Banqueting House, London.

□ Early July - Queen Elizabeth of Britain and Queen Beatrix of the Netherlands, open the exhibition of "The World of William and Mary" - at the Nieuwe Kerk, Amsterdam.

□ July 20 - Queen Elizabeth receives loyal addresses at Westminster Hall.

□ Major events during July include: Commemoration of the Bill of Rights and the Glorious Revolution, Chesterfield; British Museum exhibition: "William's supporters in 1688"; the William and Mary Exhibition at Hampton Court; an exhibition at the Royal Albert Memorial Museum in Exeter - "The Golden Age of Exeter - the city in the reign of William and Mary."

□ Other events in August will include an orchestral performance at the BBC Proms.

□ From September 1 until December, "The Golden Age of the Dutch Garden," Het Loo Palace, Apeldoorn; in mid-September - Music Festival at Het Loo Palace.

□ October 12 - January 15, 1989, Rembrandt Exhibition at the National Gallery.

□ December 1, opening of the exhibition, "Courts and Colonies: the William and Mary Style in Holland, England and America," Cooper-Hewitt Museum, New York.

□ Other events will include: The Frans Hals Exhibition at the Royal Academy; exhibition of *objets d'art*, delftware, silverware, coins and prints at the FitzWilliam Museum, Cambridge.

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L.R.